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UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

FORM 20-F

- ☐ REGISTRATION STATEMENT PURSUANT TO SECTION 12(b) OR 12(g) OF THE SECURITIES EXCHANGE ACT OF 1934
OR
☒ ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
For the fiscal year ended December 31, 2003
OR
☐ TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
For the transition period from _____ to _____

Commission File Number: **0-12332**

SCITEX CORPORATION LTD.

(Exact name of Registrant as specified in its charter and translation of Registrant's name into English)

Israel
(Jurisdiction of incorporation or organization)

3 Azrieli Center, Triangular Tower, 43RD Floor, Tel Aviv 67023, Israel
(Address of principal executive offices)

Securities registered or to be registered pursuant to Section 12(b) of the Act:
None

Securities registered or to be registered pursuant to Section 12(g) of the Act:
Ordinary Shares, NIS 0.12 nominal (par) value per share
(Title of Class)

Securities for which there is a reporting obligation pursuant to Section 15(d) of the Act:
None
(Title of Class)

Indicate the number of outstanding shares of each of the issuer's classes of capital or common stock as of December 31, 2003:
43,018,413 Ordinary Shares, NIS 0.12 nominal (par) value per share

Indicate by check mark whether the Registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the Registrant was required to file such reports) and (2) has been subject to such filing requirements for the past 90 days.

☒ Yes ☐ No

Indicate by check mark which financial statement item the Registrant has elected to follow.

TABLE OF CONTENTS

	Page
<u>INTRODUCTION</u>	4
<u>PART I</u>	5
Item 1. <u>IDENTITY OF DIRECTORS, SENIOR MANAGEMENT AND ADVISERS</u>	5
Item 2. <u>OFFER STATISTICS AND EXPECTED TIMETABLE</u>	5
Item 3. <u>KEY INFORMATION</u>	5
<u>A. Selected Financial Data</u>	5
<u>B. Capitalization and Indebtedness</u>	8
<u>C. Reasons for the Offer and Use of Proceeds</u>	8
<u>D. Risk Factors</u>	8
Item 4. <u>INFORMATION ON THE COMPANY</u>	19
<u>A. History and Development of the Company</u>	19
<u>B. Business Overview</u>	22
<u>C. Organizational Structure</u>	33
<u>D. Property, Plants and Equipment</u>	34
Item 5. <u>OPERATING AND FINANCIAL REVIEW AND PROSPECTS</u>	34
<u>A. Operating Results</u>	34
<u>B. Liquidity and Capital Resources</u>	46
<u>C. Research and Development, Patents and Licenses</u>	50
<u>D. Trend Information</u>	51
<u>E. Off-Balance Sheet Arrangements</u>	52
<u>F. Tabular Disclosure of Contractual Obligations</u>	52
Item 6. <u>DIRECTORS, SENIOR MANAGEMENT AND EMPLOYEES</u>	53
<u>A. Directors and Senior Management</u>	53
<u>B. Compensation</u>	57
<u>C. Board Practices</u>	57
<u>D. Employees</u>	62
<u>E. Share Ownership</u>	63
Item 7. <u>MAJOR SHAREHOLDERS AND RELATED PARTY TRANSACTIONS</u>	64
<u>A. Major Shareholders</u>	64
<u>B. Related Party Transactions</u>	68
<u>C. Interests of Expert and Counsel</u>	73
Item 8. <u>FINANCIAL INFORMATION</u>	73
<u>A. Consolidated Statements and Other Financial Information</u>	73
<u>B. Significant Changes</u>	74
Item 9. <u>THE OFFER AND LISTING</u>	74
<u>A. Offer and Listing Details</u>	74
<u>B. Plan of Distribution</u>	75
<u>C. Markets</u>	75
<u>D. Selling Shareholders</u>	76
<u>E. Dilution</u>	76
<u>F. Expenses of the Issue</u>	76

Item 10.	<u>ADDITIONAL INFORMATION</u>	76
	<u>A. Share Capital</u>	76
	<u>B. Memorandum and Articles of Association</u>	76
	<u>C. Material Contracts</u>	80
	<u>D. Exchange Controls</u>	81
	<u>E. Taxation</u>	81
	<u>F. Dividends and Paying Agents</u>	92
	<u>G. Statement by Experts</u>	92
	<u>H. Documents on Display</u>	92
	<u>I. Subsidiary Information</u>	92
Item 11.	<u>QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK</u>	93
Item 12.	<u>DESCRIPTION OF SECURITIES OTHER THAN EQUITY SECURITIES</u>	93
	PART II	93
Item 13.	<u>DEFAULTS, DIVIDEND ARREARAGES AND DELINQUENCIES</u>	93
Item 14.	<u>MATERIAL MODIFICATIONS TO THE RIGHTS OF SECURITY HOLDERS AND USE OF PROCEEDS</u>	94
Item 15.	<u>CONTROLS AND PROCEDURES</u>	94
Item 16A.	<u>Audit Committee Financial Expert</u>	94
Item 16B.	<u>Code of Ethics</u>	95
Item 16C.	<u>Principal Accountant Fees and Services</u>	95
Item 16D.	<u>Exemptions From the Listing Standards for Audit Committees</u>	95
Item 16E.	<u>Purchases of Equity Securities by the Issuer and Affiliated Purchasers</u>	96
	PART III	96
Item 17.	<u>FINANCIAL STATEMENTS</u>	96
Item 18.	<u>FINANCIAL STATEMENTS</u>	96
Item 19.	<u>EXHIBITS</u>	97
SIGNATURE		

INTRODUCTION

Unless indicated otherwise by the context, all references in this Annual Report to:

- *“we”, “us”, “our”, “Scitex”, or the “Company” are to Scitex Corporation Ltd. and its wholly owned and/or majority owned subsidiaries;*
- *“dollars” or “\$” are to United States dollars;*
- *“NIS” or “shekel” are to New Israel Shekel;*
- *the “Companies Law” or the “Israeli Companies Law” are to the Israeli Companies Law, 5759-1999;*
- *the “SEC” are to the United States Securities and Exchange Commission;*
- *“Discount” and “CEI” are to Discount Investment Corporation Ltd. and Clal Electronics Industries Ltd., respectively, our principal shareholders; and*
- *“Clal” are to Clal Industries and Investments Ltd., the parent of CEI.*

CAUTIONARY STATEMENT REGARDING FORWARD-LOOKING STATEMENTS

Except for the historical information contained in this Annual Report on Form 20-F, certain information contained herein, including, without limitation, information appearing under “Item 4. Information on the Company” and “Item 5. Operating and Financial Review and Prospects”, are forward-looking statements (within the meaning of Section 27A of the Securities Act of 1933 and Section 21E of the Securities Exchange Act of 1934). Forward-looking statements are based on various assumptions (some of which are beyond our control) and may be identified by the use of forward-looking terminology, such as “may”, “can be”, “will”, “expects”, “anticipates”, “intends”, “believes”, “projects”, “continues”, “plans”, “seeks”, “potential”, and similar words and phrases. Actual results could differ materially from those contained in forward-looking statements due to a variety of factors, including, but not limited to:

- risks in product and technology development;
- market acceptance of new products and continuing product demand;
- the impact of competitive products and pricing;
- changes in domestic and foreign economic and market conditions;
- timely development and release of new products by strategic suppliers;
- the impact of our accounting policies;
- risks relating to the integration of new businesses;
- uncertainty of outcome of shareholders litigation; and
- those risks set forth under “Item 3D. Risk Factors” in this Annual Report as well as those discussed elsewhere in this Annual Report.

Except as may be required by law, we do not undertake, and specifically disclaim, any obligation to release publicly the results of any revisions, which may be required to any forward-looking statements to reflect the occurrence of anticipated or unanticipated events or circumstances after the date of such forward-looking statements.

USE OF TRADE NAMES

Unless indicated otherwise by the context, trade names, trademarks and/or service marks appearing throughout this Annual Report are trademarks of Scitex, its subsidiaries and/or its affiliates and may be registered in certain jurisdictions. Scitex and the Scitex logo are trademarks and service marks of Scitex. Scitex Vision, Idanit, Aprion, Shaldag and CORjet are trademarks of Scitex Vision Ltd. or its subsidiaries.

PART I

ITEM 1. IDENTITY OF DIRECTORS, SENIOR MANAGEMENT AND ADVISERS

Not applicable.

ITEM 2. OFFER STATISTICS AND EXPECTED TIMETABLE

Not applicable.

ITEM 3. KEY INFORMATION

A. SELECTED FINANCIAL DATA

The following selected consolidated statements of operations data for the years ended December 31, 2001, 2002 and 2003 and the selected consolidated balance sheet data as of December 31, 2002 and 2003 are derived from our audited consolidated financial statements set forth elsewhere in this Annual Report, which have been prepared in accordance with generally accepted accounting principles in the United States ("U.S. GAAP"). The selected consolidated statements of operations data for the years ended December 31, 1999 and 2000 and the selected consolidated balance sheet data as of December 31, 1999, 2000 and 2001 are derived from audited consolidated financial statements not appearing in this Annual Report, which have been prepared in accordance with U.S. GAAP.

Explanatory Notes

- Our consolidated financial statements for the periods ended December 31, 2000 and 2001, were adjusted retroactively in order to reflect a change in the method of accounting of an investment from the cost method to the equity method. *See Note 2w to our consolidated financial statements included in this Annual Report.*
- In January 2003, we completed a transaction to combine the operations of Scitex Vision International Ltd. (formerly, Scitex Vision Ltd.), or Scitex Vision International, our then wholly owned subsidiary, and Scitex Vision Ltd. (formerly, Aprion Digital Ltd.), or Scitex Vision, in which we held 42.5% of its share capital. As a result, Scitex Vision became a majority owned subsidiary of ours and the parent of Scitex Vision International. This transaction is described in Item 7B below and we make reference to it in other sections of this Annual Report. Since this transaction was effected after the end of 2002, our consolidated financial statements for the year ended December 31, 2003, included in this Annual Report, consolidate Scitex Vision's financial statements whereas our consolidated financial statements for previous years include only the results of Scitex Vision International. *See Note 3a to our consolidated financial statements included in this Annual Report.*
- In January 2004, we completed a transaction to sell the business of Scitex Digital Printing, Inc., or SDP, our indirect wholly owned subsidiary, to Eastman Kodak Company, or Kodak. This transaction is described under "*Item 10C. Material Contracts – Sale of SDP*" below and we make reference to it in other sections of this Annual Report. As a result of this transaction, the results of operations of SDP are reported as discontinued operations and the consolidated results from continuing operations no longer include revenues and expenses directly attributable to SDP. Similarly, assets and liabilities relating to SDP are presented in our balance sheet separately as assets and liabilities of discontinued operations. Our consolidated financial statements for prior periods have been reclassified to reflect these changes. *See Note 1b to our consolidated financial statements included in this Annual Report.*

The following selected financial data should be read in conjunction with “Item 5. Operating and Financial Review and Prospects” and the consolidated financial statements and the notes thereto and the other financial information appearing elsewhere in this Annual Report.

BALANCE SHEET DATA

	December 31,				
	2003	2002	2001	2000	1999
	(U.S. dollars in thousands)				
Working capital (continued operations)	\$ 30,278*	\$ (17,577)*	\$ 23,037	\$ (32,377)	\$ 198,373
Working capital (discontinued operations)	\$ 129,667	\$ 113,881	\$ 90,672	\$ 91,579	\$ 76,549
Cash, cash equivalents and short term investments (continued operations)	\$ 79,358*	\$ 38,017*	\$ 46,091	\$ 18,943	\$ 67,192
Cash, cash equivalents and short term investments (discontinued operations)	\$ 16,056	\$ 15,717	\$ 18,018	\$ 29,136	\$ 15,059
Total assets	\$ 397,913	\$ 369,556	\$ 397,790**	\$ 685,928**	\$ 618,677
Long term liabilities (continued operations)	\$ 13,268	\$ 7,100	\$ 24,218	\$ 39,342	\$ 166
Long term liabilities (discontinued operations)	\$ 5,431	\$ 6,359	\$ 5,289	\$ 7,504	\$ 5,397
Share capital	\$ 6,205	\$ 6,205	\$ 6,205	\$ 6,205	\$ 6,196
Shareholders' equity	\$ 224,698	\$ 221,179	\$ 260,162**	\$ 506,332**	\$ 427,887

* Includes a short-term bank credit secured by a deposit in a bank, of which the balance as of December 31, 2002 was \$20,203,000 and as of December 31, 2003 was \$18,262,000, and is presented in the balance sheet as a restricted deposit. See Note 14d to our consolidated financial statements included in this Annual Report.

** Adjusted retroactively to reflect a change in the method of accounting of an investment from the cost method to the equity method. See Note 2w to our consolidated financial statements included in this Annual Report.

STATEMENT OF OPERATIONS DATA

	Year Ended December 31,				
	2003	2002	2001*	2000*	1999
	(US dollars in thousands, except per share amounts)				
Revenues:					
Sales	\$ 60,653	\$ 52,847	\$ 59,573	\$ 132,590	\$ 380,451
Service	5,638	5,098	4,174	28,793	109,467
Supplies	36,589	27,716	27,691	32,227	60,001
Total revenues	102,880	85,661	91,618	193,610	549,919
Cost of revenues:					
Cost of sales	33,766	25,873	27,268	71,191	200,658
Cost of service	12,438	11,486	12,414	23,144	87,358
Cost of supplies	12,138	8,562	8,126	13,038	30,250
Total cost of revenues	58,342	45,921	47,808	107,373	318,266
Gross profit	44,538	39,740	43,810	86,237	231,653
Expenses					
Research and development costs - net	11,070	7,060	6,083	19,185	45,584
Sales and marketing	20,192	19,812	21,277	38,043	85,697
General and administrative	15,147	13,581	16,376	21,592	46,784
Amortization of intangible assets (in 2001 - including goodwill)	5,871	2,944	8,460	6,807	7,662
Write-down of goodwill and other intangible assets	2,967	—	14,986	—	—
Restructuring charges	1,590	—	500	—	—
Gain from sale of operations	—	—	—	201,821	—
Operating income (loss)	(12,299)	(3,657)	(23,872)	202,431	45,926
Financial income (expenses) - net	(2,651)	(3,139)	(2,928)	1,717	1,951
Other income (loss) - net	787	(26,270)	(13,034)	(2,448)	1,170
Write-down of investment in an associated company	—	—	(149,704)	—	—
Income (loss) before taxes on income	(14,163)	(33,066)	(189,538)	201,700	49,047
Tax benefit (Taxes on income)	(2,402)	648	(2,957)	(32,723)	(6,783)
Share in losses of associated companies	(5,637)	(4,106)	(67,507)	(80,637)	(21,481)
Minority interests in losses of a subsidiary	3,546	—	—	—	—
Net income (loss) from continuing operations	(18,656)	(36,524)	(260,002)	88,340	20,783
Net income from discontinued operations	20,043	4,494	6,982	5,820	2,781
Income (loss) from disposal of assets	—	—	—	1,097	6,950
Total income from discontinued operations	20,043	4,494	6,982	6,917	9,731
Cumulative effect of an accounting change at the beginning of the year	—	—	—	20,609	—
Net income (loss)	\$ 1,387	\$ (32,030)	\$ (253,020)	\$ 74,648	\$ 30,514
Earnings (loss) per share - basic					
Continuing operations	\$ (0.43)	\$ (0.84)	\$ (6.04)	\$ 2.07	0.48
Discontinued operations	\$ 0.46	\$ 0.10	\$ 0.16	\$ 0.16	0.23
Cumulative effect of an accounting change	—	—	—	\$ (0.48)	—
	\$ 0.03	\$ (0.74)	\$ (5.88)	\$ 1.75	\$ 0.71
Earnings (loss) per share - diluted					
Continuing operations	\$ (0.43)	\$ (0.84)	\$ (6.04)	\$ 2.04	\$ 0.48
Discontinued operations	\$ 0.46	\$ 0.10	\$ 0.16	\$ 0.16	\$ 0.23
Cumulative effect of an accounting change	—	—	—	\$ (0.48)	—
	\$ 0.03	\$ (0.74)	\$ (5.88)	\$ 1.72	\$ 0.71
Weighted average number of shares outstanding (in thousands) -					
- basic	43,018	43,018	43,018	42,847	42,661
- diluted	43,018	43,018	43,018	43,299	42,983

* Adjusted retroactively to reflect a change in the method of accounting of an investment from the cost method to the equity method. See Note 2w to our consolidated financial statements included in this Annual Report.

B. CAPITALIZATION AND INDEBTEDNESS.

Not Applicable.

C. REASONS FOR THE OFFER AND USE OF PROCEEDS.

Not Applicable.

D. RISK FACTORS

The following important factors, together with others that appear with the forward-looking statements made by, or on behalf of, Scitex in this Annual Report, or in Scitex's other SEC filings, could affect our actual results and could cause our actual results to differ materially from those expressed in any forward-looking statements.

Risks Related to Our Business and Our Industry

- ***If the slow-down in expenditures by commercial printers resumes, our business and results of operations may be materially adversely affected.***

Commercial printers are the customers of a large portion of our products and services. The general deterioration of the economy worldwide and the curtailment of advertising budgets have resulted in a slow down of capital investment by commercial printers beginning late in 2001 through the end of 2002 (and to a lesser extent into 2003). Many companies, including current and potential customers of ours, postponed or decreased further capital investment and/or employed longer evaluation and purchase procedures, thereby lengthening the sales cycles and implementation periods of our products and services. During 2003, we identified a moderate improvement in the general market for commercial printers equipment, including in the wide format printing systems segment, in which we operate. However, we are unable to predict the duration of this trend or the extent of any impact that it may have on our results of operations. If this trend reverses and the slow-down in expenditures by commercial printers resumes, it would reduce our sales and could result in pressure on the price of our products, each of which would have a material adverse effect on our operating results.

- ***Our future results could be adversely affected by a permanent impairment of the carrying amount of our equity and other investments, as well as other long-lived assets.***

We review long-lived assets, certain identifiable intangibles, and goodwill related to those assets for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable in accordance with applicable financial accounting standards. We also review our equity and other investments in companies for potential impairment, depending on the classification of the investment, in accordance with applicable accounting principles and/or relevant guidance published from time to time. As such, we evaluate whether conditions may warrant revised estimates of the recoverability of the carrying amount of these assets and which, in certain situations, may result in the recognition of an impairment loss. Consequently, our future results could be adversely affected by changes in events and circumstances that would result in a permanent impairment of the carrying amount of our long-lived assets or investments. You should read the foregoing discussion with the description of our critical accounting policies in Item 5 below under the caption "impairment of goodwill, intangible assets and other long-lived assets."

- ***We are undergoing, and may in the future undergo, tax audits and may have to make material payments to tax authorities at the conclusion of these audits.***

We conduct business globally and a substantial part of our operations was conducted in various countries during the 1990s. Accordingly, not all of the tax returns of our operations during the 1990s are final and are subject to further audit and assessment by the applicable tax authorities. For example, in order to resolve a tax audit of our US subsidiaries for the years 1992 through 1996, we paid to the U.S. Internal Revenue Service (IRS) an aggregate sum of approximately \$20 million in 2002, and in 2004 we expect to pay an aggregate sum of up to \$14 million to the IRS and other U.S. state tax authorities. We cannot assure you that we will not be subject to further tax audits or assessments for this period or for recent years for which our tax returns are not final. If we become subject to further tax audits or assessments, we may be required to pay additional taxes, as a result of which, our future results may be adversely affected. *For more information about these audits and other tax assessments, please see under “Item 5.B – Liquidity & Capital Resources – Tax Audits.”*

- ***We have incurred substantial net losses in the past, and we may incur losses again in the future.***

Although our net income for the year ended December 31, 2003 was approximately \$1.4 million, we incurred net losses in the years ended December 31, 2001 and December 31, 2002 of approximately \$253.0 million (including \$215.9 million associated with our holdings in Creo) and \$32.0 million (including \$22.3 million associated with our holdings in Creo), respectively. We may continue to incur losses in the future, which could materially adversely affect our business and financial condition, as well as the value and market price of our shares. Even if we maintain profitability, we cannot assure you that future net income will offset our cumulative losses.

- ***If our majority owned subsidiary, Scitex Vision, fails to satisfy covenants set forth in its revolving credit line facilities and long-term loans, the banks may be able to call the loans and Scitex Vision may be required to raise additional funds on unfavorable terms.***

As of June 16, 2004, Scitex Vision owed approximately \$50 million to Israeli banks under its revolving credit line facilities and long-term loan agreements. These credit lines are secured by a floating charge on Scitex Vision’s assets, by approximately \$18.2 million of restricted deposits, and by a loan guarantee of approximately \$0.9 million issued by us for Scitex Vision’s benefit. Under these credit lines, Scitex Vision is required to adhere to certain financial and other restrictive covenants such as equity level, profitability and financial ratios.

In the past, Scitex Vision failed to meet certain of the requirements of these credit lines but was able to cure such default following negotiations with the banks and by raising additional funds from us and other shareholders of Scitex Vision. However, we cannot assure you that Scitex Vision will be successful in satisfying these covenants in the future. Any failure by Scitex Vision to observe covenants or satisfy conditions under these credit lines, some of which are not in our or Scitex Vision’s control, may result in the banks accelerating Scitex Vision’s obligations, which would obligate Scitex Vision to immediately repay all loans made by the banks plus penalties, and the banks would be entitled to exercise the remedies available to them under these credit lines, including enforcement of their floating charge. This would have a material adverse effect on us. In addition, in such event Scitex Vision may be required to enter into another agreement with the banks or to secure financing from other sources. If adequate funds are not available on terms favorable to Scitex Vision from the banks or other resources, Scitex Vision’s (and consequently, our) operations and financial results will be materially adversely affected.

- ***We are facing, and may in the future face, litigation in connection with our majority stake in Scitex Vision.***

On January 1, 2003, we completed the combination, through a share exchange, of Scitex Vision International, our then wholly owned subsidiary, and Scitex Vision, a company in which we held 42.5% of its share capital. Following this transaction, Scitex Vision became a majority owned subsidiary of ours, and the parent of Scitex Vision International. In connection with this transaction, three shareholders of Scitex Vision have sent to us and to Scitex Vision letters in which they allege, among other things, that the valuation assigned to Scitex Vision in the transaction was below its fair market value and that the transaction was conducted in bad faith and prejudiced the rights of Scitex Vision's minority shareholders. Since October 2003, several lawsuits and motions were filed by one of these shareholders, C.D.I. Technologies (1999) Ltd, or CDI, against us, Scitex Vision and others, mainly other shareholders of Scitex Vision (among them, our two largest shareholders, Clal and Discount) regarding the aforesaid transaction and additional corporate transactions of Scitex Vision that took place since then, as more fully described in Item 8 below under the caption "Legal Proceeding." We and Scitex Vision do not believe that these claims have any merit and we intend to vigorously defend our position on these issues. However, we cannot assure you at this time as to the outcome of any such litigation and whether CDI may initiate further legal proceedings against Scitex Vision or us.

- ***Because we have recently sold the business of SDP, our business is less diversified, which reduced, and may in the future reduce, our earnings and might make us more susceptible to negative conditions in our remaining businesses.***

In January 2004, we completed the sale of substantially all of the assets and business of SDP to Kodak. As a result of the said sale of the business of SDP to Kodak, we no longer generate revenues from these operations and our net income is no longer affected by the results of SDP. As a result, without offsetting increases in revenues in our other businesses (mainly, Scitex Vision), our overall revenues would decrease, which may have a negative affect on our financial condition. Also, our net income results may also be adversely affected from this divestiture. In addition, as a result of this divestiture, our business is now less diversified and thus more dependent on our remaining businesses, mainly the business of Scitex Vision. Consequently, we are now more sensitive to conditions and trends in the remaining industries in which we operate, mainly in the wide and super-wide format segment of the industrial inkjet digital printing market. Our inability to overcome any negative conditions and trends in the industries in which we operate could have a negative impact on our financial condition.

- ***Because the digital printing market is characterized by technological and other changes, our success depends on our ability to predict and respond to market developments or demands, and to continually develop new and more technologically advanced products and product enhancements that achieve market acceptance.***

The digital printing market is characterized by technological changes and improvements and frequent new product introductions and enhancements. Our financial performance and growth is dependent upon our ability to continuously develop, introduce and deliver commercially viable products and technologies on a timely basis that offer customers enhanced performance at competitive prices. The ongoing introduction of new technologies and products across our product lines is intended to keep pace with rapid market changes and to minimize the effect of competitive product offerings and pricing. However, we cannot assure you that we will have the financial resources, marketing and distribution capability or the technology to compete successfully. We believe that our industry will continue to be characterized by technological advances and a relatively short product life cycles resulting in continued risk of product obsolescence.

- ***The market for digital printers and printer supplies is very competitive. We may lose market share and our results may suffer if we cannot compete effectively.***

The digital printing and printing supplies markets are very competitive and competition may increase in the future. Competition may come from existing vendors and new market entrants, including competitors that may have greater research and development, management, financial, technical, manufacturing, marketing, sales, distribution, name recognition and other resources than those currently available to us. For example, we are facing increased competition for the sale of inks for use with our printing systems, which caused us to reduce our prices for certain products. Also, in the past few years several Asian producers, mostly from China, have entered the super-wide format printing market with low cost products emulating Scitex Vision's entry-level printing systems. Scitex Vision faces strong competition in this market, mainly, in China. Scitex Vision is also facing strong competition in the field of flatbed industrial UV-curable ink-jet printers. Increased competition could have an adverse material effect on our business, financial condition and operating results through pricing pressure, loss of market share and other factors.

- ***It may be difficult for us to find replacement suppliers for key components of our products.***

There are a limited number of potential suppliers of certain key components of our products, including components of inkjet printheads, drying systems and inks. Accordingly, any problems that may occur with respect to the delivery, quality or cost of these components could result in product shortages or quality assurance problems. If our current suppliers of such components are unable or unwilling to provide these components to us, it may be difficult to find qualified suppliers or to replenish inventories of components on a timely basis, and this could cause our operating results to suffer.

- ***Our intellectual property rights are difficult to protect and if we are unable to adequately protect such rights, our business may be materially adversely affected.***

Our intellectual property rights, particularly existing or future patents, may be invalidated, circumvented, challenged, infringed, or required to be licensed to others, despite efforts to protect them. Furthermore, others may develop similar or superior technologies, duplicate or reverse-engineer our technology, or design around our patents, or those licensed to us. If we fail to protect our intellectual property rights, we would be less able to differentiate our products and revenues will likely decline. While we are not aware of any infringement claims against us, third parties may assert infringement claims against us in the future and these claims may require us to enter into license arrangements or result in protracted and costly litigation, regardless of the merits of these claims.

- ***Our operating results may be subject to quarterly fluctuations.***

Our operating results may be subject to quarterly fluctuations as a result of a number of factors. In particular, we do not typically have a significant backlog of orders at the beginning of each quarter and, as a result, may experience fluctuations in operating results based upon the timing of the receipt of orders and the shipment of products. We generally receive orders, ship and record a significant portion of our revenue within the same quarter. Thus, we may not learn of shortfalls or quarterly fluctuations in sales until late in, or shortly after the end of, the reporting periods. Other factors which have contributed, and may in the future contribute, to fluctuations in our quarterly results of operations include:

- general economic conditions;
- the capital spending patterns of our customers;
- market acceptance of new products;
- the high level of competition that we encounter;
- the size and timing of orders, including order deferrals, and subsequent shipments.;
- software and hardware development problems;

- one-time charges;
- mergers or acquisitions;
- credit risks associated with certain customers or certain geographical areas.;
- the timing of our new product introductions or enhancements or that of our competitors or providers of complementary products; and
- disruptions in, or changes in the quality of, our sources of supply.

Accordingly, the results of past periods should not be relied upon as an indication of our future performance. Our operating results have from time to time been, and may in some future periods be, below expectations of public market analysts or investors. This has resulted, and if this occurs in the future would likely result, in a decline in our share price.

- ***Our products may contain undetected defects that could harm our reputation, result in the loss of customers and revenues and expose us to product liability claims.***

We typically offer six to twelve month warranty programs with respect to our products. Our warranty generally provides that we will repair or replace products with defects in materials or workmanship or that fail to meet agreed-upon specifications. Although we perform comprehensive quality tests before delivering our products, our products may contain defects that may not be discovered before the products are supplied to customers. Any defects or errors in the products could result in exposure to product liability claims; harm to our reputation; diversion of personnel and financial resources; less favorable insurance terms; other ancillary expenses; and, consequently, adversely affect our financial condition.

- ***We may be subject to environmental related liabilities due to our use of hazardous materials and solvents.***

We mix ink used in some of our printers with solvents and other hazardous materials. Those materials are subject to various governmental regulations relating to their transfer, handling, packaging, use and disposal. We store the ink at warehouses worldwide, including Europe, the United States, Mexico Asia Pacific and South Africa, and shipping companies ship it at our direction. We face potential responsibility for problems that may arise when we ship the ink to customers. We believe that we are in compliance with the applicable environmental laws and regulations. While we customarily obtain insurance coverage typical for this kind of risk, if we fail to comply with these laws or an accident involving our ink waste or solvents occurs, then our business and financial results could be harmed.

- ***We may be subject to the risk of loss due to fire because the materials we use in the manufacturing process of our inks are flammable.***

Scitex Vision uses flammable materials in the manufacturing processes of its inks and may therefore be subject to the risk of loss arising from fires. The risk of fire associated with these materials cannot be completely eliminated. Moreover, Scitex Vision has one main facility that manufactures these inks, which increases our exposure to such risk in case this facility is destroyed or materially damaged as a result of fire or otherwise. Scitex Vision maintains insurance policies to reduce losses caused by fire, including business interruption insurance. If this facility is damaged or otherwise ceased operations as a result of a fire, it would reduce manufacturing capacity and, consequently, may reduce revenues and adversely affect our business.

- ***Our business is subject to risks from international operations.***

We conduct business globally. Accordingly, our future results could be materially adversely affected by a variety of uncontrollable and changing factors including, among others, foreign currency exchange rates; regulatory, political, or economic requirements; business and government spending patterns; political and economic instability; and natural disasters. While we exert efforts to mitigate the risks associated with our international operations, such as by operating through local companies in foreign markets and certain hedging activities in respect of our currency exchange risks, our business will be materially adversely affected if we fail to overcome the challenges we encounter in such operations.

- ***Our results of operations may be harmed by currency fluctuations.***

Because we generate revenues and expenses in various currencies, including in U.S. dollars, Euros and certain other European currencies, the South African Rand and New Israeli Shekels, our financial results are subject to the effects of fluctuations of currency exchange rates. For example, we incur a significant portion of our expenses in New Israeli Shekels, or NIS. As a result, we are exposed to risk to the extent that the rate of inflation in Israel exceeds the rate of devaluation of the NIS in relation to the dollar or if the timing of such devaluation lags behind inflation in Israel. If the dollar cost of our operations in Israel increase, then our dollar-measured results of operations will be adversely affected. Accordingly, we may enter into currency hedging transactions to decrease the risk of financial exposure from fluctuations in the exchange rate of the dollar against other currencies. However, we cannot predict whether and when exchange or price controls or other restrictions on the conversion of foreign currencies could impact our business. In addition, these measures may not adequately protect us from material adverse effects due to the impact of inflation in Israel.

- ***Some of our holdings are in companies that may be unable to obtain future financing.***

Some of the companies in our group are emerging companies with no substantial operating history and have extensive research and development and marketing costs and limited revenues, if any. In order to succeed, these companies may require additional capital to fund these costs, which may prove to be difficult. If these companies are unable to obtain sufficient financing from their current shareholders, which may also include additional investments by us in these companies, or from new financing sources, their continued operations may be at risk. This could adversely affect our financial performance.

- ***The loss of the services of our key personnel could seriously harm our business.***

Our future success depends to a large degree on the continued services of our senior management and key personnel. In particular, we are dependent on the services of a small number of key executives. The loss of their services, particularly to a competitor, could disrupt our operations and harm our business.

- ***Our group companies may not be able to enforce covenants not to compete.***

Some of our group companies currently have non-competition agreements with substantial numbers of their employees who are involved in research and development. In many cases, these employees are located primarily in Israel. These agreements prohibit the company's employees, if they cease working for the company, from directly competing with the company or working for its competitors. Israeli courts have required employers seeking to enforce non-compete undertakings of a former employee to demonstrate that the competitive activities of the former employee will harm one of a limited number of material interests of the employer which have been recognized by the courts, such as the secrecy of a company's confidential commercial information or its intellectual property. If any of our group companies cannot demonstrate that harm would be caused to it, the company may be unable to prevent its competitors from benefiting from the expertise of its former employees.

- ***We may be deemed an “investment company” under the Investment Company Act of 1940.***

We sold the business of SDP, one of our two principal operating subsidiaries, to Kodak in January 2004 and have invested a portion of the cash proceeds from the sale in short and long term investments. We currently operate, and intend to continue operating, in a manner that would allow us not to be deemed an “investment company” under the Investment Company Act of 1940. This may include investing the cash proceeds in a manner that will cause us to have less than 40% of our total assets (exclusive of cash and government securities), determined on an unconsolidated basis, invested in “investment securities” (as that term is defined in the Investment Company Act). If more than 40% of our total assets were invested in “investment securities,” we may be deemed to be an “investment company” under the Investment Company Act, unless we qualify for an exemption. If we were deemed to be an investment company, we would not be permitted to register under the Investment Company Act without obtaining exemptive relief from the Securities and Exchange Commission because we are incorporated outside of the United States and, prior to being permitted to register, we would not be permitted to offer or promote our securities in the United States. As a result, we may elect to make investments or dispose of certain investments on terms that may not be as favorable to us as if we were not potentially subject to regulation under the Investment Company Act. If we are deemed to be an investment company, we could be found to be in violation of the Investment Company Act. A violation of that law could subject us to material adverse consequences.

- ***We are exposed to potential liabilities in connection with the sale of the business of SDP to Kodak.***

We have agreed to indemnify Kodak for certain breaches of our asset purchase agreement, including in the case of breaches of our representations and warranties, up to a cap of approximately \$50 million. A claim against us could result in substantial cost, which would have a negative impact on our financial condition. In addition, we have generated a significant amount of gain from the SDP transaction. Based on our assessment and that of our tax advisors, we believe that we are in compliance with all taxes due in relation with this transaction. The various tax authorities may not agree with our view. Any such disagreement or a subsequent tax dispute could result in tax liabilities in amounts which we currently cannot estimate. *For more information, see under “Item 10C. Material Contracts – Sale of SDP” below.*

- ***We are exposed to decreases in the value of our financial investments.***

As of December 31, 2003, we held \$52.9 million in cash and cash equivalents. We hold part of our cash on hand in a variety of financial instruments, including different types of investment grade bonds. If the obligor of any of the bonds we hold defaults or undergoes a reorganization in bankruptcy, we may lose all or a portion of our investment in such obligor. We may also be subject to loss to the extent that the market value of these bonds decline. This will harm our financial condition. *For information on the types of our investments as of December 31, 2003, see Item 11 – “Quantitative and Qualitative Disclosures About Market Risk—Presentation of Exchange Rate and Interest Rate Risk.”*

Risks Related to Operations in Israel

- ***Political, economic and military instability in Israel or the Middle East may adversely affect our results of operations.***

Our corporate headquarters and the principal offices, research and development, engineering and manufacturing operations of Scitex Vision, the principal facilities of several of our group companies, and many of our and their suppliers are located in Israel. In addition, such companies are heavily dependent upon components imported into Israel. Accordingly, our operations and financial results could be adversely affected if political, economic or military events curtailed or interrupted trade between Israel and its present trading partners or if major hostilities involving Israel should occur in the Middle East.

Since the establishment of the State of Israel in 1948, a number of armed conflicts have taken place between Israel and its Arab neighbors. A state of hostility, varying in degree and intensity, has led to security and economic problems for Israel. Since October 2000, there has been a high level of violence between Israel and the Palestinians. The hostilities between Israel and the Palestinians have intensified in mid-2002 and led to a crisis in the entire peace process and have strained Israel's relationship with its Arab citizens, Arab countries and, to some extent, with other countries around the world. Any armed conflicts or political instability in the region, including acts of terrorism or any other hostilities involving or threatening Israel, would likely negatively affect business conditions and harm our results of operations. Furthermore, several countries restrict business with Israel and Israeli companies and additional countries may restrict doing business with Israel and Israeli companies as a result of the recent increase in hostilities. These restrictive policies have harmed and may continue to harm the expansion of our business. No predictions can be made as to whether or when a final resolution of the area's problems will be achieved or the nature thereof and to what extent the situation will impact Israel's economic development or our operations.

- ***Our results of operations may be negatively affected by the obligation of personnel to perform military service.***

Some of our and our group companies' executive officers and employees in Israel are obligated to perform military reserve duty annually. They may also be further subject to being called to active duty at any time under emergency circumstances. Our operations could be disrupted by the absence for a significant period of one or more of our executive officers, key employees or a high number of other employees due to military service, and any disruption in our operations would harm our business. The full impact on our workforce or business if some of our executive officers and employees will be called upon to perform military service, especially in times of national emergency, is difficult to predict.

- ***The tax benefits that some of our group companies currently receive are subject to several conditions and may be terminated or reduced in the future, which could increase our or their taxes.***

Some of our Israeli group companies receive tax benefits under Israeli law for capital investments that are designated as "Approved Enterprises." To maintain eligibility for these tax benefits, a participant must continue to meet conditions stipulated in applicable law and in the specific approvals, including making specified investments in fixed assets. If our applicable Israeli group companies fail to comply with these conditions, in whole or in part, in the future, these companies may be required to pay additional taxes for the period in which they benefited from the tax exemption or reduced tax rates and would likely be denied these benefits in the future. These tax benefits may not continue in the future at their current levels or at any level. From time to time, some of our Israeli group companies may submit requests for expansion of their Approved Enterprise programs or for new programs to be designated as Approved Enterprises. These requests might not be approved, particularly in light of difficult economic conditions in Israel. The termination or reduction of these tax benefits could harm our financial condition and results of operations.

- ***Because some of our group companies receive grants from the Israeli Office of the Chief Scientist, they are subject to ongoing restrictions, and such companies' grant programs may be terminated or reduced in the future, which would increase our costs.***

Some of our group companies receive royalty-bearing grants from the Office of the Chief Scientist of the Israeli Ministry of Industry, Trade and Labor for research and development programs that meet specified criteria. According to Israeli law, any products developed with grants from the Office of the Chief Scientist are required to be manufactured in Israel, unless the participant obtains prior approval of a governmental committee. As a condition to obtaining this approval, a participant may be required to pay the Office of the Chief Scientist up to 300% of the grants received and to repay such grants at a quicker rate. In addition, a participant is prohibited from transferring to third parties in Israel the technology developed with these grants without the prior approval of a governmental committee and is prohibited from transferring such technology to third parties outside Israel. Any non-Israeli who becomes a holder of 5% or more of the participant's share capital is generally required to notify the Office of the Chief Scientist and to undertake to observe the law governing the grant programs of the Office of the Chief Scientist, the principal restrictions of which are the transferability limits described above in this paragraph. Since Scitex currently participates in these programs solely through its subsidiaries and some of its group companies, we do not believe that any non-Israeli who becomes a holder of 5% or more of our outstanding shares is required to comply with the aforesaid notification and undertaking requirements.

We recorded grant participations of approximately \$0.7 million in 2003 and approximately \$0.7 million in 2002. As of December 31, 2003, our contingent liability to the Office of the Chief Scientist with respect to grants received was approximately \$3.6 million. The Israeli government has reduced the benefits available under these programs in recent years and has indicated that it may reduce or eliminate these benefits in the future. These programs may not continue in the future at their current levels or at any level. From time to time, we and some of our group companies may submit requests for new grants from the Office of the Chief Scientist. These requests might not be approved, particularly in light of the reduction in government spending in Israel. The termination or reduction of these grants could harm our financial condition and results of operations.

- ***Israeli banking laws may impose restrictions on the total debt that we may borrow from Israeli banks.***

Pursuant to a recent amendment to a directive published by the Israeli Supervisor of Banks, which became effective on March 31, 2004, we may be deemed part of a group of affiliated borrowers comprised of IDB Holding Corporation Ltd., the ultimate parent of Discount and Clal, our principal shareholders, and other companies which may be included in such group of borrowers pursuant to the directive. The directive generally provides that an entity will be subject to limitations on the amount of financing available to it from an Israeli bank if such entity is included within a group of borrowers, to which the amount of debt financing that has been extended from such Israeli bank exceeds certain limits as specified in the directive. As we are part of the IDB affiliated group of companies which includes many companies that require, or may in the future require, extensive credit facilities from Israeli banks for the operation of their businesses, we cannot assure you that our banks will not exceed these limits (if applicable to us) in the future. Should our banks exceed these limits, they may limit our ability to draw funds and may require us to return some or all of our outstanding borrowings (which were \$53.9 million as of December 31, 2003), each of which may have a material adverse effect on our business, financial condition and results of operations. *For additional information, see in Item 4B below under the caption "Government Regulations."*

- ***A litigant may have difficulty enforcing US judgments against us, our officers and directors, our Israeli subsidiaries and affiliates or to assert U.S. securities law claims in Israel.***

Service of process upon us, our Israeli subsidiaries and affiliates, and our directors and officers, substantially all of whom reside outside the United States, may be difficult to obtain within the United States. Furthermore, because the majority of our assets and investments, and substantially all of our directors and officers are located outside the United States, any judgment obtained in the United States against us or any of them may not be collectible within the United States.

There is doubt as to the enforceability of civil liabilities under the Securities Act of 1933 and the Securities Exchange Act of 1934 in original actions instituted in Israel. However, subject to specified time limitations, Israeli courts may enforce a U.S. final executory judgment in a civil matter, provided that:

- adequate service of process has been effected and the defendant has had a reasonable opportunity to be heard;
- the judgment and its enforcement are not contrary to the law, public policy, security or sovereignty of the State of Israel;
- the judgment was obtained after due process before a court of competent jurisdiction according to the rules of private international law prevailing in Israel;
- the judgment was not obtained by fraudulent means and does not conflict with any other valid judgment in the same matter between the same parties;
- an action between the same parties in the same matter is not pending in any Israeli court at the time the lawsuit is instituted in the U.S. court; and
- the U.S. court is not prohibited from enforcing judgments of Israeli courts.

If a foreign judgment is enforced by an Israeli court, it generally will be payable in NIS, which can then be converted into non-Israeli currency and transferred out of Israel. The usual practice in an action to recover an amount in non-Israeli currency is for the Israeli court to render judgment for the equivalent amount in NIS at the rate of exchange on the date of payment, but the judgment debtor also may make payment in non-Israeli currency. Pending collection, the amount of the judgment of an Israeli court stated in NIS ordinarily will be linked to the Israel Consumer Price Index plus interest at the annual rate (set by Israeli law) prevailing at that time. Judgment creditors bear the risk of unfavorable exchange rates.

- ***Provisions of Israeli law may delay, prevent or make more difficult an acquisition of Scitex, which could depress our share price.***

The Israeli Companies Law generally requires that a merger be approved by the board of directors and a majority of the shares voting on the proposed merger. Unless a court rules otherwise, the statutory merger will not be deemed approved if a majority of the shares present that are held by parties other than the other party to the merger (or by any person who holds 25% or more of the shares or the right to appoint 25% or more of the directors of the other party or its general manager) vote against the merger. Upon the request of any creditor of a party to the proposed merger, a court may delay or prevent the merger if it concludes that there is a reasonable concern that, as a result of the merger, the surviving company will be unable to satisfy its obligations. In addition, a merger may not be completed unless at least 70 days have passed since the filing of the merger proposal with the Israeli Registrar of Companies. Also, in certain circumstances an acquisition of shares in a public company must be made by means of a tender offer. Lastly, Israeli tax law treats some acquisitions, such as stock-for-stock exchanges between an Israeli company and a foreign company, less favorable than U.S. tax laws. These provisions of Israeli corporate and tax law may have the effect of delaying, preventing or make more difficult an acquisition of or merger with Scitex, which could depress our share price. *For more information about provisions of Israeli law with respect to acquisitions, please see under "Item 10B. Memorandum and Articles of Association – Change of Control."*

Risks Related to the Market for Our Ordinary Shares

- ***Volatility of our share price could adversely affect us and our shareholders.***

The market price for our ordinary shares has been and is likely to continue to be volatile and could be subject to wide fluctuations in response to numerous factors, such as:

- market conditions or trends in our industry;
- political, economic and other developments in the State of Israel and world-wide;
- actual or anticipated variations in our quarterly operating results;
- material corporate transactions; and
- entry into strategic partnerships or joint ventures by us or our competitors.

In addition, the stock market in general, and the market for Israeli and technology companies in particular, has been highly volatile in the past three years. Many of these factors are beyond our control and may materially adversely affect the market price of our ordinary shares, regardless of our performance. Shareholders may not be able to sell their ordinary shares following periods of volatility because of the market's adverse reaction to such volatility and we may not be able to raise capital through an offering of securities.

- ***Two shareholders may be able to control us.***

Clal, through CEI, its wholly owned subsidiary, and Discount (directly and through DIC Loans Ltd., its wholly owned subsidiary) own an aggregate of approximately 49% of our outstanding ordinary shares. In addition, they are parties to a voting agreement entered into in 1980. Accordingly, Clal and Discount may have sufficient voting power, subject to special approvals required by Israeli law for transactions involving controlling shareholders, to:

- elect all of our directors (subject to the provisions of the Companies Law with regard to outside directors);
- control our management; and
- approve or reject any merger, consolidation or sale of substantially all of our assets.

This concentration of ownership of our ordinary shares could delay or prevent proxy contests, mergers, tender offers, open-market purchase programs or other purchases of our ordinary shares that might otherwise give our shareholders the opportunity to realize a premium over the then-prevailing market price for our ordinary shares. This concentration of ownership may also adversely affect our share price. In addition, the market price of our ordinary shares may be adversely affected by events relating to Clal and Discount that are unrelated to us. *For more information about Clal, Discount and the 1980 Voting Agreement, please see under "Item 7.A – Major Shareholders."*

- ***Our U.S. shareholders may suffer adverse tax consequences if we are classified as a passive foreign investment company.***

As more fully described in Item 10 – "Additional Information - Taxation" under the caption "Tax Consequences if we are a Passive Foreign Investment Company," we may be classified as a passive foreign investment company, or PFIC, for U.S. federal income tax purposes if for any taxable year our passive income or our assets that produce passive income exceed specified levels. If we are characterized as a PFIC, U.S. holders (as defined in Item 10) may suffer adverse tax consequences. These consequences may include having gains realized on the sale of our ordinary shares treated as ordinary income, rather than capital gain income, and having potentially punitive interest charges apply to the proceeds of share sales. U.S. holders should consult with their own U.S. tax advisors with respect to the U.S. tax consequences of investing in our ordinary shares.

- ***Our ordinary shares are listed for trading in more than one market and this may result in price variations.***

Our ordinary shares are listed for trading on Nasdaq and the TASE. Trading in our ordinary shares on these markets is made in different currencies (U.S. dollars on Nasdaq and New Israeli Shekels on TASE), and at different times (resulting from different time zones, different trading days and different public holidays in the United States and Israel). The trading prices of our ordinary shares on these two markets often differ, resulting from the factors described above, as well as differences in exchange rates. Any decrease in the trading price of our ordinary shares on one of these markets could cause a decrease in the trading price of our ordinary shares on the other market.

ITEM 4. INFORMATION ON THE COMPANY

A. HISTORY AND DEVELOPMENT OF THE COMPANY

CORPORATE HISTORY & DETAILS

Our legal and commercial name is Scitex Corporation Ltd. and our legal form is a company limited by shares. We were incorporated under the laws of the State of Israel on November 2, 1971, succeeding a predecessor corporation, Scientific Technology Ltd. that was founded on September 5, 1968. Our corporate headquarters and principal executive offices are located at 3 Azrieli Center, Triangular Tower, 43RD Floor, Tel Aviv, 67023, Israel. Our telephone number in Israel is (972) 3 - 6075855. Our Website address is www.scitex.com. *Information contained on our website does not constitute a part of this Annual Report.*

We initially focused in imaging competencies in systems for the textile design market. In 1979 we launched the world's first computerized, color prepress system. In the 1990s we identified the evolving digital printing market and focused on commercializing innovative solutions for the graphic publishing industry in its transition from analog to digital printing, and made several key acquisitions of digital printing operations. In April 2000 we sold our digital preprint operations and our print-on-demand systems business to Creo Inc. (Nasdaq: CREO, TSE: CRE). We, through our subsidiaries, now design, develop, manufacture, market and support primarily industrial inkjet digital printing solutions. In addition, we are engaged, through our affiliated companies and investments, in the field of Internet imagery.

MAJOR BUSINESS DEVELOPMENTS SINCE JANUARY 1, 2003

We are currently focusing, through Scitex Vision, on the wide format segment of the industrial inkjet digital printing market and, during 2003 and early 2004, we gradually eliminated our involvement in the digital preprint business (through our equity interest in Creo) and in the high-speed digital printing business (through SDP), mainly through:

- the sale of the business of SDP to Kodak in January 2004;
- the combination of the operations of Scitex Vision (formerly, Aprion Digital), a developer of “drop-on demand” inkjet technologies, in which we held 42.5% of the share capital, and Scitex Vision International (formerly, Scitex Vision), our wholly owned subsidiary until the consummation of such transaction in January 2003, and subsequent investments by us in Scitex Vision in July 2003 and May 2004;
- the sale of the remainder of our shareholdings in Creo, a provider of solutions for the graphic arts industry;

- the investment of \$1.5 million in Jemtex InkJet Printing Ltd., or Jemtex, which increased our interest in Jemtex from 49.8% to 72.9%; and
- on-going investments by Scitex Vision Ltd. in new products and markets.

In early 2004, we approved a plan to distribute approximately \$118 million to our shareholders through a repurchase of shares from our shareholders and a cash distribution:

- On May 14, 2004, we commenced a self tender offer to purchase up to 5,643,739 of our shares for \$5.67 per share (up to \$32 million in the aggregate) in cash. On June 18, 2004, we completed the tender offer and purchased 4,952,050 shares for an aggregate amount of approximately \$28 million.
- On June 22, 2004, we announced a distribution of \$2.36 per ordinary share, or approximately \$90 million in the aggregate, payable on July 12, 2004 to our shareholders of record as of June 30, 2004.

From mid-2003, we also underwent several key changes to our management team, as described in Item 6A below.

PRINCIPAL CAPITAL EXPENDITURE & DIVESTITURES

Since January 1, 2001, except for the self tender offer and the cash distribution described above, most of our principal capital expenditures have been for the acquisition of interests in other companies, as follows:

- Since May 2001, we invested an aggregate of approximately \$9.1 million in Objet Geometries Ltd., including \$0.5 million that was invested in December 2003 in connection with Objet's rights offering. We now hold an approximate 23.5% interest of Objet;
- Between July 2000 and February 2002, we invested an aggregate of approximately \$5.5 million in Jemtex and in the acquisition of Jemtex shares from third parties. In December 2002, we invested \$2.4 million in consideration for convertible notes coupled with warrants to invest an additional \$1.6 million, of which we exercised and invested \$0.8 million. In February 2004, we have completed an investment of \$1.5 million in consideration for convertible debentures of Jemtex. We now hold an approximate 72.9% interest (80.5% assuming conversions of the debentures) in Jemtex;
- In March 2001, Scitex Vision International acquired the ink manufacturing business of Techno Ink Manufacturing (PTY) Ltd., or TechInk, for a downpayment of \$2.9 million and additional payments to TechInk of up to a maximum of approximately \$5.5 million (approximately \$1.9 million were paid to TechInk as of December 31, 2003), contingent upon the achievement of specified financial targets related to production and sales of inks by Scitex Vision International;
- During 2001, we increased our holdings in Scitex Vision from 17% to 42.5% through the exercise of warrants in consideration for approximately \$2.5 million, and the conversion of a convertible note in that company for no additional consideration. In the fourth quarter of 2002, we signed an agreement to combine the operations of Scitex Vision and Scitex Vision International, our then wholly owned subsidiary, and in January 2003 we completed this transaction, as a result of which Scitex Vision became a majority owned subsidiary of ours and the parent of Scitex Vision International. In July 2003 and May 2004, Scitex Vision concluded rights offerings in which we invested approximately \$5.0 million and \$4.2 million, respectively, in accordance with our pro rata share of such offering. *For more information about the Scitex Vision-Scitex Vision International transaction and the Rights Offerings, see in Item 7B below under the captions "Combination of Scitex Vision and Scitex Vision International" and "Rights Offerings by Scitex Vision," respectively; and*

- In April 2002, Scitex Vision International acquired advanced digital printing technologies from Siantec SARL, or Siantec, by way of an asset purchase agreement for \$2 million and additional payments of up to a maximum of \$10 million, based on the achievement of specified financial targets, such as revenues and operating income from Scitex Vision International's sales of systems and ink based on Siantec's technology during a period of up to five years. \$2 million of the consideration paid to Siantec was placed in an escrow account to cover possible indemnification claims by Scitex Vision International. Furthermore, we issued guarantees in favor of Siantec to secure Scitex Vision International's obligations and payments under the agreement, and in favor of Bank Hapoalim, in the amount of \$2 million, to secure a loan provided by the bank for the initial payment by Scitex Vision International. The outstanding principal amount (and interest accrued thereon) under such loan was approximately \$0.9 million as of June 30, 2004. In February 2004, Siantec agreed to pay Scitex Vision International \$1 million out of the escrow account and to waive its rights to the said contingent payments of up to \$10 million in settlement of alleged breaches of representations and warranties made by Siantec in the asset purchase agreement.

Principal capital divestitures since January 1, 2001, are as follows:

- In April 2000, we sold our digital preprint operations and our print-on-demand systems business to Creo, in return for 13.25 million of Creo shares, and became the largest shareholder in Creo, initially with approximately 28.7% of the outstanding Creo shares. Creo, headquartered in Burnaby, Canada, is a high-technology company focused on the application of imaging and information technology, whose shares are publicly traded on the Nasdaq National Market and the Toronto Stock Exchange. As part of the transaction, we issued to Creo an unsecured, non-interest bearing note due April 4, 2003, in the principal amount of \$18,760,000, which was fully repaid in April 2003. In November 2001, we sold 7.0 million shares of Creo for gross proceeds of approximately \$78 million as part of a private placement to Canadian institutional investors. In June and August 2003, we sold 3.0 million shares of Creo for gross proceeds of approximately \$24 million and 3.25 million shares of Creo for gross proceeds of approximately \$31 million, respectively, as part of an arranged sale to various financial institutions in Canada and we no longer hold any Creo shares;
- Vio Worldwide Limited, or Vio, a Scitex joint venture with British Telecommunications plc, was an application service provider, or ASP, to the print and publishing industry. Launched in 1998, Vio was to provide a secure and reliable global graphic arts communication network combined with industry leading on-line software applications. In early 2001, Vio's shareholders resolved to gradually wind-down Vio's operations, due to the joint venture's inability to reach financial profitability or to raise third party financing. Eventually it was sold to Citizen Ltd. in June 2001 for no consideration other than Citizen's assumption of Vio's ongoing liabilities;
- In April 2002, we completed the sale of our shares in the Karat Digital Press joint venture, a developer of color digital offset press, to Koenig & Bauer A.G., or KBA, our joint venture partner, for approximately \$14.4 million and for additional contingent future performance related payments. Other terms of this transaction, announced in early 2001, include, among other things, the assumption by KBA of full responsibility for manufacturing, sales and customer support operations of Karat Digital Press machines worldwide; and
- In January 2004, we completed a transaction to sell the business of SDP, our indirect wholly owned subsidiary, to Kodak. This transaction is described under "*Item 10C. Material Contracts – Sale of SDP*" below

B. BUSINESS OVERVIEW

OVERVIEW

We are leaders, through Scitex Vision, in the wide and super-wide format segment of the industrial inkjet digital printing market. Our current operations, carried out by our operating subsidiaries, Scitex Vision and Jemtex, consist of the design, development, manufacture, marketing and support of products for the industrial inkjet digital printing market. In addition, we hold interests in a number of companies whose operations comprise related businesses operating within a single industry, including in the rapid prototyping market (through our equity interest in Objet) and in the Internet-related imaging market (through our equity interests in RealTimeImage and XMPiE). Until the second half of 2003, we also operated in the digital preprint business through our equity interest in Creo, and, through the end of 2003, we operated in the high-speed segment of the industrial inkjet digital printing market through our wholly owned subsidiary, SDP.

SCITEX VISION - WIDE FORMAT & SUPER-WIDE FORMAT PRINTERS

General

Scitex Vision Ltd. (formerly, Aprion Digital Ltd.), or Scitex Vision, is our majority owned subsidiary, based in Netanya, Israel. It is a leading developer, manufacturer and distributor of wide-format and super-wide format, color inkjet digital printing systems used for point-of-purchase displays, banners and indoor and outdoor advertising posters. It is also engaged in the design, development, manufacturing and marketing of advanced digital printing presses and specialized water-based inks for the packaging and textile markets based on its patented drop-on-demand inkjet technology. As of December 31, 2003, Scitex Vision employed approximately 450 employees (including employees of its sales, marketing and support subsidiaries and part-time and temporary employees).

Scitex Vision was formed out of several acquisitions and transactions. The following is a brief outline of some of the key dates in Scitex Vision's corporate history:

- 1994: Idanit Technologies Ltd. was founded as an Israeli company.
- 1998: Scitex acquired the operations of Idanit in February 1998 and, in October 1998, expanded its operations with the purchase of the super-wide format product line from the Israeli Matan group of companies.
- 1999: Idanit's name was changed to Scitex Wide Format Printing Ltd. on February 24, 1999. In September 1999, Scitex formed Scitex Vision (under the name of Aprion Digital) out of its Advanced Printing Products division, together with several investors, including Clal and Discount.
- 2000: The name of Scitex Wide Format Printing Ltd. was changed to Scitex Vision Ltd. (currently, Scitex Vision International Ltd.) on August 21, 2000.
- 2001: Scitex Vision Ltd. (currently, Scitex Vision International Ltd.) acquired the ink manufacturing business of Techno Ink Manufacturing (PTY) Ltd., a company based in Capetown, South Africa.
- 2003: In January 2003, the operations of Scitex Vision International (formerly, Scitex Vision Ltd.) were combined with those of Scitex Vision (formerly, Aprion Digital Ltd.), as a result of which, Scitex Vision International became a wholly owned subsidiary of Scitex Vision.
- 2004: The name of Aprion Digital Ltd. was changed to its present name, Scitex Vision Ltd., on February 16, 2004.

Product Overview

Scitex Vision printers are dedicated to a wide array of applications including billboards, fleet marking, banners, street advertising, point-of-purchase displays and floor and window graphics, and applications for the packaging display market and, through strategic partners, for the textile market. Its printing systems are aimed at providing high-quality and cost-effective solutions to digital printing houses worldwide. Scitex Vision operates principally in the following fields: wide format systems, super-wide format systems, and flatbed printing systems for the graphic arts, packaging, displays and textile printing applications.

Wide Format Printing Systems.

Scitex Vision's wide format systems utilize piezoelectric drop-on-demand inkjet technology and the company's proprietary multi-array technology. These wide format systems are especially designed for short and medium print run applications and a broad range of applications, such as point-of-purchase displays, outdoor billboards, fleet marking, street advertising and bus shelters. Scitex Vision wide format systems have become an industry standard among paper billboard printers in Europe and the United States. Representative products in this category are:

- *TURBOjet.* With printing speed of over 400 square meters per hour and a high printing resolution (of up to 440 dpi (dots-per-inch)), the TURBOjet is designed to provide a high-quality, high-speed and low-cost industrial digital printing solution for the screen printing and offset industry.
- *Superjet.* The Superjet is an industrial roll-to-roll printing system that prints with environmentally friendly water-based inks, at a high printing resolution (600 dpi). It is designed to provide high image and text quality at high printing speeds for unique applications, such as point-of-purchase displays and banners.

Super-Wide Format Printing Systems.

Scitex Vision's super-wide format systems are especially designed for short print run applications on formats of between two to five meters wide for a broad range of applications, including billboards, point-of-purchase, truck-side curtains, vehicle wraps, textile and carpet printing, floor and window graphics, wall coverings, exhibition graphics and banners, and theater and television backdrops. Representative products in this category include the Scitex Grandjet S+™ and the Scitex XLjet+ line of systems that print on formats of up to two, three and five meters wide, the only limitation on length of the print being the size of the roll. If wider print widths are required, the Grandjet S+ and XLjet systems create a print layout in sections that, when seamed and placed together, create a continuous and seamless-looking image in super-wide formats such as mega posters. These systems differ mainly in their image quality, number of colors, throughput capability and price. Like Scitex Vision's wide format digital printing systems, the Scitex Grandjet S+™ and Scitex XLjet+ systems utilize piezoelectric drop-on-demand inkjet technology. However, unlike the wide format systems, which are drum-based (except for the Superjet), they are based on a roll-to-roll technology, using a print process in which the substrate is placed on two long cylindrical shafts at the base of the printer. Scitex Vision recently introduced Grandjet Classic, which is designed to allow a combination of a cost-effective and reliable printing solution with high productivity and versatility (in terms of applications and substrates), primarily for new entrants to the super-wide format market.

Flatbed Printing Systems.

Following the acquisition of flatbed and UV curable ink technologies in April 2002 from Siantec SARL, Scitex Vision has developed, and in 2003 launched, the Scitex VEEjet, an advanced versatile flatbed wide format digital system designed to print on a wide range of rigid and flexible substrates for the graphic arts market using environmentally friendly UV curable inks. Several VEEjet systems have been sold and installed at customer sites.

Industrial Inkjet Presses.

Scitex Vision designs, develops, manufactures and markets advanced digital printing presses and specialized water-based inks for industrial applications based on its patented drop-on-demand inkjet technology. This technology, initially developed under Scitex's former Advanced Printing Products division, is based on piezo inkjet heads with a patented multi-layer construction designed to provide high printing speed, flexibility of media choice and high reliability. Applications include packaging and displays, graphic arts and textile. The industrial inkjet press system exists in roll-to-roll and sheet-fed versions. It is a cost-effective, piezo-driven, drop-on-demand inkjet system with a traversing print array. The press can handle short runs printed on materials up to 63 inches in width and is designed for industrial applications. Representative products include:

- *CORJet*. The CORJet is designed to provide a flexible, high-quality and high-printing speed product for short and medium run prints on corrugated displays and packaging applications. It is a fully automated system that prints with environment-friendly industrial digital inkjet press for cost-effective short runs.
- *DreAM*. The DreAM is an industrial digital printer for textile applications for short and medium fabric print runs for specialized clothing, home furnishings, automotive and other technical textiles, flags and banners, and emerging applications. It prints with printing speed of up to 150 square meters per hour and at a high printing resolution (600 dpi) directly on woven, knitted and non-woven fabrics. The DreAM was introduced in December 2002 by Reggiani Macchine S.p.A. of Italy, and combines Reggiani's proprietary substrate-conveying system with Scitex Vision's inkjet heads and uses completely novel printing inks, developed especially by Ciba Specialty Chemicals of Switzerland. Pursuant to Scitex Vision's agreement with Reggiani and Ciba, Reggiani is responsible for the integration, marketing and service of the DreAM while the inks are developed and marketed by Ciba.

Consumables.

- *Inks*. The inks used with Scitex Vision's printing systems are an important element of the printing process. The quality of the prints depends in part on a number of factors relating to the inks, including the compatibility of the inks with the printheads, the color gamut achievable with the inks, the ink gloss and the color density. In addition, outdoor applications require additional characteristics in the ink such as durability and abrasion resistance to protect against the elements. Scitex Vision sells inks that are specially formulated to work with its systems. Most of the inks sold are solvent-based pigmented inks. In March 2001, following the acquisition by Scitex Vision of Tech-Ink, one of the leading state-of-the-art ink manufacturers, located in Cape-Town, South Africa, the inks are manufactured by Tech-Ink. In April 2001, Scitex Vision introduced the innovative VisionInk program to the market, whereby customers are able to select inks that have been specially developed for both their printing systems and their applications.
- *Substrates*. Scitex vision offers its customers in certain regions specialized media substrates for its super-wide format and wide format systems. Those substrates are formulated by third party suppliers according to Scitex Vision's specifications and are designed to be particularly compatible to those printing systems.

Manufacturing

Scitex Vision outsources the manufacturing of many of the components for its systems to its own specifications and purchases off-the shelf components for its systems from third party vendors. The most important third party vendors for its printing systems are the suppliers of the printheads used in such systems, and the subcontractors for assembly of its wide format systems.

Final integration and quality control testing of Scitex Vision's wide and super wide format systems is conducted at its facilities in Netanya, Israel, where it also assembles its wide and super-wide format systems and conducts full system integration and quality assurance testing.

Most of the parts, components and commodities used by Scitex Vision in the manufacture and assembly of its products are available from several sources, although it currently purchases a substantial number of items from single suppliers. In some cases, there is only one source of supply for a component or commodity used by it. In particular, Scitex Vision currently has only single sources for the supply of the printheads for its wide format printers and for its super-wide format printers. While Scitex Vision conducts a continuous process of evaluation of the main printheads available in the market, if either of these printhead suppliers were to discontinue the manufacture or supply of printheads, Scitex Vision believes it would have difficulties in locating alternative suppliers or manufacturing these products itself within a reasonable time frame.

Scitex Vision generally purchases certain major components and commodities used in its products under annually renewable supply agreements with principal suppliers. To date, it has managed to overcome any difficulties experienced in obtaining timely deliveries. However, increased demand for these components and commodities or future unavailability could result in production delays that might adversely affect our business.

In the field of industrial inkjet press system for the textile market, Scitex Vision also operates through original equipment manufacturers (OEMs) and cooperation agreements, whereby a family of print modules incorporating its unique printhead technology for this field is used by its business partners in a variety of configurations and applications.

Sales & Marketing

Scitex Vision has a large customer base with over 1,300 systems installed globally to date. It sells its products through its direct sales force, indirect distribution channels and third party joint sales arrangements:

- *Direct sales.* Scitex Vision formed regional subsidiaries that operate as distribution units principally in North America and Europe, and, since early 2003, also in the Asia Pacific region. These subsidiaries carry out direct sales and marketing as well as service and logistics for its products in their respective regions.
- *Distribution channels.* Scitex Vision relies on third party distributors and dealers to conduct sales and marketing in Latin America and in certain countries in Europe, Asia Pacific, Africa and the Middle East.
- *Joint sales arrangements.* Scitex Vision sells and distributes products in conjunction with certain third party products.

Equipment sales are typically made on terms requiring an advance payment, with the balance of the purchase price payable in stages, generally on delivery and on or shortly after acceptance of installation. Scitex Vision has agreements with third party financing companies for long-term financing of purchases of its equipment by certain customers.

Customer Support

Scitex Vision believes that a high level of customer service, technical support and training is important in achieving customer satisfaction and market acceptance of its products. It has a dedicated customer service and support team, consisting of over 100 engineers, technical and application specialists, and logistics and management personnel. These personnel are located in the United States, Europe and Asia as well as at the company's headquarters in Israel. The customer support team is responsible for providing installation services; post-sales support, and warranty services. Scitex Vision maintains a training facility at its headquarters in Israel for its customer support team and customers. In addition, its sales demonstration facilities in Brussels, Belgium and Atlanta, U.S.A., are also used for training purposes.

Scitex Vision offers an equipment warranty to its customers and distributors that, in most cases, cover defects in the systems for a period of six to twelve months following installation. At the end of the warranty period, the customer may enter into a service agreement with Scitex Vision, which includes equipment and software maintenance. If a customer does not enter into a service agreement, service is provided and charged on a per-call basis.

In 2003, Scitex Vision generated approximately \$42 million of revenue from the supply of consumables and service operations, representing approximately 41% of its total revenues compared to approximately \$33 million, or 38% of its total revenues, in 2002.

Competition

The primary competitive factors affecting sales of Scitex Vision's products are price, productivity, product features, application versatility, reliability, support, print quality, durability and cost of inks and substrates. Other competitive factors include the reputation of the manufacturer and access to product financing.

We believe that the Scitex TURBOjet wide format systems, the Scitex Grandjet and Scitex XLjet super-wide format systems, as well as the VEEjet flatbed and CORjet packaging systems, are generally competitive on price and features and have certain advantages and disadvantages as compared to competitors' products. While certain of the systems may be slightly more expensive than the printing systems offered by Scitex Vision's competitors, we believe they are competitive based on other factors, such as superior performance regarding quality of prints and speed of output and certain other competitive criteria and unique solutions.

Scitex Vision's principal competition is as follows:

- *Super-wide format.* Scitex Vision has two main competitors in the super-wide format market: NUR Macroprinters Ltd. of Israel and Vutek, Inc. of the United States. Recently, several additional producers, mostly from China, have entered the super-wide format printing market with low cost products emulating Scitex Vision's entry-level printing systems. Scitex Vision faces strong competition in this market, mainly in the Asia Pacific region.
- *Wide format.* Scitex Vision also competes in the wide format market with traditional, analog printing methods, particularly screen and offset printing, which continue to be the main methods used in wide format printing. The main competitors in this market are the screen printing manufacturers, such as Thieme GMBH & Co. KG of Germany and M&R Sales and Service, Inc. of the U.S.
- *Flatbed.* Scitex Vision has several competitors in the digital flatbed market, including Vutek with its PressVu flatbed versions; Nur Macroprinters with its Tempo line of products; Inca Digital Printers of the U.K. with its Spyder, Eagle and Columbia printers; and Durst Phototechnik AG of Italy with its Rho 160 and Rho 205 printers.
- *Industrial Inkjet Presses.* Our main competitor in this market, mainly in the packaging and display segments, is Inca with its Columbia line of printers.
- *The textile digital printing market.* This market is in the early stages of development and we are currently not aware of any specific competitors or competitive patterns.

- *Consumables.* Certain ink manufacturers, including Sericol Limited of the U.K. and Triangle Digital LLC of the U.S., are developing or have developed inks that are compatible with Scitex Vision's systems. Scitex Vision is facing increased competition for the sale of inks for use with these systems, which could materially adversely affect future revenues from the sale of inks. Scitex Vision's approach to this market is to compete based on its VisionInk concept, which allow customization of the inks which it supplies for use on its printing systems and the provision of a single source for most of a printer's digital printing requirements, including after-sales service and consulting, inks and media. In the field of substrates, there is a large number of suppliers who currently supply, or could supply, Scitex Vision's customers with substrates, many of whom are companies with very substantial resources, sales and marketing infrastructure and know-how.

GROUP COMPANIES

Below is a brief description of our principal group companies.

Jemtex Ink Jet Printing Ltd.

Jemtex, located in Lod, Israel, was established in 1995. It employed, as of December 31, 2003, approximately 30 people. We currently hold an approximate 72.9% interest in Jemtex.

Jemtex is a developer and manufacturer of inkjet based digital systems, printheads and engines for the industrial printing markets, primarily ceramic tiles and textile printing. Jemtex's Continuous Ink Jet technology is designed to allow for customization, higher flexibility in design, file changes during print runs, smaller production runs, and faster turnaround time from print order to delivery of printed material. For example, it allows for the use of an expanded variety of inks and increased flexibility in applying color techniques to a variety of different types of fabrics. Jemtex has developed solutions for nozzle design, drop assignment and image processing algorithms for multi-nozzle alignment, calibration and on-line video process control. The design of its printheads and modular implementation are aimed to assure fast assembly and up time, as well as smooth operation with higher viscosity inks and colorant concentrations. Jemtex's current strategy is operating through strategic alliances with leading printing houses and major original equipment manufacturers.

Jemtex has recently introduced a new digital printing decoration system for ceramics named Gema II. The Gema II is designed to operate at productivity levels comparable to conventional printing while providing the advantages of digital printing. Due to the expected savings in color stocks, printing drums and set-up times associated with analog printing, this system is expected to be highly cost effective compared to current competing solutions. Jemtex is also developing a static inkjet printhead, which is expected to be the widest static inkjet printhead in operation, for use in quality printing of textiles. This printhead is currently in advanced trial phases.

Objet Geometries Ltd.

Objet, located in Rehovot, Israel, was founded in 1998. It employed, as of December 31, 2003, nearly 70 people. We currently hold an approximate 23.5% interest in Objet.

Objet is a leading developer and manufacturer of three-dimensional (3D) inkjet printing systems and it operates in the rapid prototyping market. Objet's systems enable designers and mechanical engineers to create 3D models directly from CAD (computer aided design) files. Objet developed the Objet Studio software that interfaces between the CAD files and the Objet 3-D printers. The Objet's printers use photopolymer-jet technology to produce the model out of digital files created in the mechanical design process in a wide variety of industries that need to physically verify, model or prototype their designs early in the product development process.

During 2002, Objet began commercial deliveries of the Objet Quadra Tempo, an advanced version of the Objet Quadra with higher speeds, reducing overall printing time over the earlier version. During 2003, Objet began commercial shipments of the Eden 330 and the Eden 260 Rapid Prototyping systems using Objet's newly developed Single Head Replacement (SHR) technology.

RealTimeImage Ltd.

RealTimeImage (formerly RTImage Ltd.), or RTI, was formed in 1996. It is headquartered in San Bruno, California, with research and development operations in Or-Yehuda, Israel, and employed, as of December 31, 2003, about 60 employees. We currently hold an approximate 14.9% interest in RTI.

RTI is a leading innovator and developer of Internet-based imaging products and services for healthcare professionals and, until May 2004, for the graphic arts market. It provides high quality, real time, Internet imaging platforms, allowing users to transform image-based workflows into online workflows. RTI currently offers one principal line of products:

- *iPACS*[™] is a family of digital imaging workflow solutions designed for use by healthcare professionals in hospitals and imaging centers. It is designed to allow a user to share medical images instantaneously and without loss in quality over any Web connection. *iPACS* products are currently deployed at more than 500 hospitals and imaging centers around the world.

In May 2004, the RealTimeProof business of RTI, a family of online proofing and collaboration products designed for the graphic arts market was sold to Kodak Polychrome Graphics (KPG).

XMPiE Inc.

XMPiE is a spin-off from Scitex, formed in 2000, that develops and markets software solutions for publishing, using personalized marketing. The XMPiE software platform is designed to allow organizations and marketing service providers, such as digital commercial printers and direct marketing agencies, to efficiently conduct direct marketing campaigns with one-to-one customer communication and graphically rich personalized messages. XMPiE is headquartered in New York, New York and, as of December 31, 2003, employed approximately 30 people. We currently hold an approximate 5.4% interest in XMPiE.

DISCONTINUED OPERATIONS (SDP)

In January 2004, we completed a transaction to sell the business of Scitex Digital Printing, Inc., or SDP, our indirect wholly owned subsidiary, to Eastman Kodak Company, or Kodak. This transaction is described under “*Item 10C. Material Contracts – Sale of SDP*” below. As a result of this transaction, the results of operations of SDP are reported as discontinued operations and the consolidated results from continuing operations no longer include revenues and expenses directly attributable to SDP. Nevertheless, since the operations of SDP comprised one of our principal activities in the past 10 years, the following is a brief description of SDP’s business as of December 31, 2003. Accordingly, the following description of SDP’s business, to the extent it uses the current tense, is not purported to describe the current operations of SDP. For example, SDP’s products have been renamed by Kodak and SDP’s business is now conducted under the name of Kodak Versamark, Inc., a wholly owned subsidiary of Kodak.

General

SDP is a wholly-owned subsidiary of Scitex, based in Dayton, Ohio. It develops and manufactures high speed, computer-driven, variable-data inkjet printers, which it also markets, sells and supports. Ancillary operations in Europe and the Far East provide sale, marketing and support services of SDP’s products outside the United States. SDP, together with such ancillary operations, had, as of December 31, 2003, a total workforce of approximately 730 employees (including part-time and temporary employees).

Product Overview

SDP's systems produce hardcopy output of digital data files generated entirely on a computer or originating from a computer. SDP focuses on long-run, high-volume, printing in monochrome, spot color and full process color. Among the applications included are personalization of promotional mailings, billings, statements, books, bar codes and lottery tickets.

The technology in these systems involves a proprietary continuous inkjet printing technology developed by SDP. It utilizes a nearly microscopic stream of ink that is separated into droplets of predictable size. Selected droplets then are deflected by an electrostatic charge directly onto the paper or other substrates to create an image. These systems primarily serve commercial and in-plant printers in digital printing of variable information, in page-wide, partial-page and narrow formats, in monochrome, spot or process color.

Page-Wide Format Products.

SDP's page-wide format systems are used for full-page, variable printing up to 18 inches wide on one or two sides. These systems are designed to provide good quality at ultra-high production speeds and at low operating cost-per-page for direct mail, billings, statements, book printing, or any variable printing application. Representative products include:

- *Scitex VersaMark™* high speed printing system, introduced in early 1999, combines high speed, and low cost per page in a turnkey solution that is neatly set into a modular, and entirely upgradeable package.
- *Scitex VersaMark Business Color Press™*, or BCP, a high speed digital full color press, was introduced in May 2000. It is aimed towards a broad range of applications, including direct mail, coupon and catalog printing, book publishing, and statement printing.
- *Scitex VersaMark™ Vantage™* was introduced in April 2002. The VersaMark™ Vantage™, part of the BCP products portfolio, targets commercial printers who seek an affordable solution to combining the benefits of digital color printing and the flexibility of variable data for one-to-one direct mailings, personalized billing and transaction statements, and individualized, on-demand printing for books and catalogs.

Partial-Page Format Products.

Partial-page format systems, with multiple arrays of 3.4 or 4.25-inch printheads, are used for monochrome, spot color, or highlight variable printing on documents. Flexible configurations of up to 16 printheads can be used to handle the widest variations of applications in-line on webs, both offset and flexo, folders, collators, and document tables. The Scitex 6240™ inkjet printing system prints business forms, tags and labels, direct mail, booklets and billing statements. It is used for bar coding, numbering, addressing, personalization, and spot color or highlighting.

Narrow Format Products.

Narrow format systems, with a variety of printheads, are used in applications such as personalization, direct addressing, bar coding and numbering, applied as single, spot or highlight color. The Scitex Dijit printing system prints variable information for automatic direct addressing, personalization, messaging, numbering and dating at speeds up to 1,000 fpm. The compact and modular system can be used with a variety of third party equipment such as web presses, bindery lines, folders or mailing bases. In September 2002, SDP introduced two new products to the Scitex Dijit family of printing systems, the Dijit® Passport™ and the Dijit® Liberty™.

Workflow Products.

SDP provides its customers with a range of workflow products supporting the preparation of data for high-speed digital printing and, in particular, for merging variable content into the printed document in an optimized manner. For example, the Scitex Composer is a suite of application software that includes four modules - Web Layout, PageComp, Data Merge, and IJPDS Proofer. This combination provides users all the tools required to easily design, lay out, define, and proof variable content jobs and is compatible with industry-standard software used in a broad-range of applications.

Inks.

SDP develops and manufactures a range of black, selected spot color and process color inks that are sold for use with all of the printing systems. Different inks are available for optimal use with different media and applications. SDP also partners with other ink manufacturers to provide a wider variety of inks for its customers.

Manufacturing

SDP's manufacturing facilities are based in Dayton, Ohio, although it also uses subcontractors in connection with certain types of work and activities. Product quality control tests and inspections are performed at various steps throughout the manufacturing process. Most of the parts, components and commodities used by SDP in the manufacture and assembly of its products are available from several sources.

Sales & Marketing

SDP has a large customer base with over 9,000 units installed worldwide. It generally markets and sells its own products through a global direct sales force. Sales organizations are strategically located throughout the United States, with several subsidiaries dedicated to SDP's products in Europe, Japan and Asia, providing sales and support. In certain areas, SDP also utilizes dealers and value added resellers (VARs).

The traditional customers of SDP include professional mailers, commercial printers, publication printers (such as magazines and catalogs), and form printers utilizing our equipment for applications such as direct mail, lottery and addressing. Emerging applications include billing, data center printing, and high volume on-demand book printing.

SDP's equipment sales are typically made on terms requiring an advance payment, with the balance of the purchase price payable in stages, generally shortly after delivery.

Customer Support

Technical support, training and customer service are important factors in SDP's system sales and the achievement of high levels of customer satisfaction.

SDP provides an equipment warranty for an agreed period following completion of installation, typically ranging from three to six months. At the end of the warranty period, the customer may enter into a service agreement with SDP, which includes equipment and software maintenance as well as printhead refurbishment. If a customer does not enter into a service agreement, service is provided and charged on a time and materials basis. In some instances, mainly in the data center market, SDP provides service to customers based on the usage of the system, also known as “click charges.”

As of December 31, 2003, the customer support operations worldwide of SDP engage over 170 employees, comprising engineers, technical and application specialists as well as logistics and management personnel. In certain areas, services are provided through distributors and resellers, who provide technical and applications support through locally trained engineers.

CUSTOMERS & SALES

The following table sets forth the amounts and relative percentages of our revenues from continuing operations (i.e., excluding revenues from the operations of SDP) by geographical markets, for the years indicated:

	Year Ended December 31,*								
	2003		2002		2001				
	(US dollars in thousands)								
North America (mostly United States)	\$	19,650	19.1%	\$	17,814	20.8%	\$	18,690	20.4%
Mexico		15,178	14.8%		8,725	10.2%		1,221	1.3%
Europe (West)		25,313	24.6%		24,524	28.6%		29,339	32.0%
Europe (East)		11,580	11.2%		12,980	15.2%		6,846	7.5%
Far East		12,460	12.1%		16,647	19.4%		29,860	32.6%
Other countries		18,699	18.2%		4,971	5.8%		5,662	6.2%
Total	\$	102,880	100.0%	\$	85,661	100.0%	\$	91,618	100.0%

* Please see Note 15b to our consolidated financial statements included in this Annual Report. For revenues from discontinued operations, see Note 1b.

In each of the years 2003, 2002 and 2001, no end-user customer or distributor accounted for more than 10% of our revenues.

The following table sets forth our revenues from continuing operations (i.e., excluding revenues from the operations of SDP) for the years 2001 through 2003 attributable to our principal sources of revenue/business activities:

	Year Ended December 31,*					
	2003		2002		2001	
	(US dollars in thousands)					
Sales	\$ 60,653	59.0%	\$ 52,847	61.7%	\$ 59,753	65.2%
Services	5,638	5.5%	5,098	6.0%	4,174	4.6%
Supplies	36,589	35.5%	27,716	32.3%	27,691	30.2%
Total Revenues	\$ 102,880	100.0%	\$ 85,661	100.0%	\$ 91,618	100.0%

* As a result of the sale of SDP business to Kodak in January 2004, our consolidated financial statements for the periods ended December 31, 2001, 2002, and 2003, were reclassified and we now report in one segment, wide format digital printing. Please see Note 15a to our consolidated financial statements included in this Annual Report. For revenues from discontinued operations, see Note 1b.

INTELLECTUAL PROPERTY AND PROPRIETARY RIGHTS

The digital printing industry is characterized to a great extent by its reliance on proprietary technology. We believe that we own or have the license to use the technologies used in our products. We currently rely on a combination of trade secrets, licenses and patents, together with non-disclosure and confidentiality agreements, to establish and protect our proprietary rights in our products. However, no assurance can be given that our existing patents or any future patents will not be challenged, invalidated, or circumvented, or that our competitors will not independently develop or patent technologies that are substantially equivalent or superior to our technology. There can be no assurance that further patent protection will be obtained in Israel, the United States, or elsewhere, for existing or new products or applications, or that such further protection, if obtained, will be effective. Moreover, the laws of some foreign countries in which we sell or may sell our products may not fully protect, or may not protect at all, our proprietary rights in products. We take precautionary measures to maintain our trade secrets such as requesting our employees and selected parties, including key dealers, subcontractors and distributors, to sign confidentiality agreements, non-competition agreements or non-disclosure agreements, as applicable. However, no assurance can be given that others will not acquire equivalent trade secrets or otherwise gain access to or disclose our proprietary technology, or that we can meaningfully protect our rights to such proprietary technology not subject to patent protection.

We are not aware of any material claim that our products infringe upon the proprietary rights of third parties. However, there can be no assurance that third parties will not assert infringement claims against us in the future, and the cost of responding to such assertions, regardless of their validity, could be significant. In addition, such claims may be found to be valid and could result in awards against us, which could have a material effect on our business.

GOVERNMENT REGULATIONS

Israel has the benefit of a free trade agreement with the United States which, generally, permits tariff-free access into the United States for products produced in Israel by Scitex's Israeli subsidiaries, joint ventures and group companies. In addition, as a result of an agreement entered into by Israel with the European Union, or the EU, and countries remaining in the European Free Trade Association, or EFTA, the EU and EFTA have abolished customs duties on Israeli industrial products. However, there can be no assurance that these agreements will not be terminated, changed, amended or otherwise declared non-applicable to all or some of our Israeli subsidiaries, joint ventures and group companies, thereby materially harming our and their businesses.

Scitex Vision and some of our group companies receive grants from the Office of the Chief Scientist of the Israeli Ministry of Industry, Trade and Labor for research and development programs. Some of our group companies also receive tax benefits under Israeli law for capital investments that are designated as "Approved Enterprises." The participation in these programs is subject to compliance with certain conditions and imposes certain restrictions upon these companies. *For more information about the Office of the Chief Scientist, tax benefits for Approved Enterprises and export controls, see "Item 5B – Liquidity and Capital Resources – Grants from the Office of the Chief Scientist" and "Item 10E – Taxation – Israeli Taxation – Tax Benefits under the Law for the Encouragement of Capital Investments, 1959," respectively.*

Pursuant to a recent amendment to a directive published by the Israeli Supervisor of Banks, which became effective on March 31, 2004, we may be deemed part of a group of affiliated borrowers comprised of IDB Holding Corporation Ltd., the ultimate parent of Discount and Clal, our principal shareholders, and other companies which may be included in such group of borrowers pursuant to the directive. The directive generally provides that an entity will be subject to limitations on the amount of financing available to it from an Israeli bank if such entity is included within a group of borrowers, to which the amount of debt financing that has been extended from such Israeli bank amounts to 30% of such bank's capital, or is a member of one of the bank's six largest borrowers or groups of borrowers to which, collectively, the amount of debt financing that has been extended from the bank amounts to 150% of such bank's capital (gradually reduced to 135% between April 2005 and June 2006). As we are part of the IDB affiliated group of companies which includes many companies that require, or may in the future require, extensive credit facilities from Israeli banks for the operation of their businesses, we cannot assure you that our banks will not exceed these limits (if applicable to us) in the future. Should our banks exceed these limits, they may limit our ability to draw funds and may require us to return some or all of our outstanding borrowings (which were \$53.9 million as of December 31, 2003), each of which may have a material adverse effect on our business, financial condition and results of operations. The directive also provides that a bank may request that the Israeli Supervisor of Banks exempt certain entities from the scope of the definition of a group of borrowers. Since we currently do not believe that the directive will impact us, we do not currently intend to request that our banks seek an exemption on our behalf from the Israel Supervisor of Banks. Should we decide to make such a request of our banks, there can be no assurance that our banks would agree to request an exemption from the Israel Supervisor of Banks on our behalf or that the Israel Supervisor of Banks would grant an exemption, if requested.

We are also governed by foreign and domestic federal, state and local laws of general applicability, such as laws regulating working conditions. In addition, we are subject, as are manufacturers generally, to various foreign and domestic federal, state and local environmental protection laws and regulations, including those governing the discharge of material into the environment. Compliance with such environmental provisions is not expected to have a material adverse effect on our operations in the foreseeable future.

C. ORGANIZATIONAL STRUCTURE

Scitex is part of a group of which it is the parent company. The following table sets forth the name, jurisdiction and ownership and voting interest of our principal operating subsidiaries, as of the date hereof:

Name	Jurisdiction	Ownership and Voting Interest
Scitex Vision Ltd.	Israel	75.5% ⁽¹⁾
Scitex Vision International Ltd.	Israel	75.5% ⁽¹⁾
Jemtex Ink Jet Ltd.	Israel	72.9% ⁽²⁾

(1) In January 2003, Scitex Vision International became a wholly owned subsidiary of Scitex Vision and an indirect majority owned subsidiary of ours due to our interest in Scitex Vision. See "Item 6E – Share Ownership – Subsidiaries Stock Option Plans" with respect to options to acquire shares in these companies.

(2) On an as-converted basis.

We also have a number of direct and indirect wholly owned subsidiaries, mainly regional, that carry out ancillary operations for Scitex Vision and Scitex Vision International, primarily sales, marketing and customer support. *A full list of our significant subsidiaries, including name and country of incorporation is appended as Exhibit 8 to this Annual Report.*

D. PROPERTY, PLANT AND EQUIPMENT

In January 2004, we relocated to new corporate administrative offices in Tel Aviv, Israel, consisting of approximately 1,780 square feet of floor space pursuant to a Services Agreement between us and Discount Investment Corporation Ltd., one of our major shareholders. *For more information about the Services Agreement, please see under "Item 7B. Related Party Transactions."*

Scitex Vision rents nearly 124,000 square feet in Netanya, Israel, for use as its principal administrative, manufacturing and research and development facility. The term of this lease is through 2010, with an option to terminate in 2005. Elsewhere in the United States, Scitex Vision leases a number of other facilities, aggregating approximately 19,200 square feet, used primarily for sales, marketing and customer support. Outside Israel and the United States, Scitex Vision leases additional office space, primarily in Brussels, Belgium; Hong Kong; Mexico City and Capetown, South Africa and various other European centers. These facilities currently comprise approximately 67,600 square feet of floor space.

Jemtex leases nearly 15,500 square feet in Lod, Israel, for use as its administrative, manufacturing and research and development facility. The term of this lease is through 2010, with an option to terminate in 2005.

We believe that the aforesaid offices and facilities are suitable and adequate for our operations as currently conducted and as currently foreseen. In the event that additional facilities are required, we believe that we could obtain such facilities at commercially reasonable rates.

ITEM 5. OPERATING AND FINANCIAL REVIEW AND PROSPECTS

The following discussion and analysis of our financial condition and results of operations are based upon our consolidated financial statements included elsewhere in this Annual Report, which have been prepared in accordance with U.S. GAAP. The preparation of these financial statements requires us to make estimates, judgments and assumptions, which may affect the reported amounts of assets, liabilities, revenues and expenses, and related disclosure of contingent assets and liabilities. Accordingly, actual results may differ from these estimates or judgments under different assumptions or conditions. In this respect, we urge you to read the discussion under the caption “Critical Accounting Policies” below.

The discussion below contains forward-looking statements that involve risks and uncertainties. Our actual results may differ materially from those anticipated in these forward-looking statements as a result of certain factors, including, but not limited to, those set forth in “Item 3—Key Information—Risk Factors.”

You should read the following discussion with the consolidated financial statements and other financial information included elsewhere in this Annual Report.

OVERVIEW

Scitex, through Scitex Vision, is a leader in the wide format segment of the industrial inkjet digital printing market. Our operations, carried out by our operating subsidiaries, Scitex Vision and Jemtex, consist of the design, development, manufacture, marketing and support of products for the industrial inkjet digital printing market. In addition, we hold interests in a number of companies whose operations comprise related businesses operating within a single industry, including in the rapid prototyping market (through our equity interest in Objet) and in the Internet-related imaging market (through our equity interests in RealTimeImage and XMPiE). Until the second half of 2003, we also operated in the digital preprint business through our equity interest in Creo, and, through the end of 2003, we operated in the high-speed segment of the industrial inkjet digital printing market through our wholly owned subsidiary, SDP.

During 2003 and early 2004, we underwent substantial changes, including:

- the sale of the business of SDP to Kodak in January 2004;
- the combination of the operations of Scitex Vision Ltd. (formerly, Aprion Digital), a developer of “drop-on demand” inkjet technologies, in which we held 42.5% of the share capital, and Scitex Vision International Ltd. (formerly, Scitex Vision), our wholly owned subsidiary until the consummation of such transaction in January 2003, and subsequent investments by us in Scitex Vision in July 2003 and May 2004;

- the sale of the remainder of our shareholdings in Creo, a provider of solutions for the graphic arts industry;
- the investment of \$1.5 million in Jemtex, which increased our interest in Jemtex from 49.8% to 72.9%. As a result, commencing with the first quarter of 2004, we are consolidating the results of Jemtex with ours, which have been previously treated by us as an investment accounted for under the “equity” method; and
- key changes to our management team, including the appointment of Mr. Raanan Cohen as our Interim President and Chief Executive Officer in January 2004 and the changes to our board of directors.

In addition, in January 2004, we approved a plan to distribute approximately \$118 million to our shareholders through a repurchase of shares from our shareholders and a cash distribution:

- On May 14, 2004, we commenced a self tender offer to purchase up to 5,643,739 of our shares for \$5.67 per share (up to \$32 million in the aggregate) in cash. On June 18, 2004, we completed the tender offer and purchased 4,952,050 shares for an aggregate amount of approximately \$28 million.
- On June 22, 2004, we announced a distribution of \$2.36 per ordinary share, or approximately \$90 million in the aggregate, payable on July 12, 2004 to our shareholders of record as of June 30, 2004.

In 2001 and 2002, we recorded net losses in the respective amounts of approximately \$253 million and \$32 million, respectively, primarily as a result of write-downs and losses of \$215.9 million (in 2001) and write-downs of \$22.3 million (in 2002) associated with our holdings in Creo. In 2003, we recorded net income of approximately \$1.4 million, as a result of an improvement in the general market for commercial printers equipment and consumables and \$8 million that was recognized as a tax benefit related to the sale of the business of SDP to Kodak. The \$1.4 million of net income resulted from offsetting approximately \$20 million of net income from discontinued operation (namely, SDP) with a net loss of approximately \$18.6 million from continuing operations (mainly, Scitex Vision).

Key Factors Affecting our Results

Our operating results may be affected as a result of a number of factors, including:

- Global or regional economic conditions;
- Our revenues are directly related to our ability to identify high potential products while they are still in development and to bring them to market quickly and effectively. Efficient and productive research and development is essential in this environment as we, like our competitors, search to introduce cost-efficient printing solutions to the digital printing market. The need for increased resources in order to take advantage of the full range of new research and development technologies has been among the reasons for the consolidation which has taken place across the industry, and for the increase in collaborations between leading companies and niche players at the forefront of their particular technology areas. The growth in new technology, particularly of industrial inkjet digital printing technologies, if at all, is likely to have a fundamental impact on the digital printing industry as a whole, and upon our future development;
- Exchange rate exposure also affects our results as we have both sales and costs in many currencies other than the U.S. dollar (mainly in Euro). In 2003, the European currencies increased in value relative to the U.S. dollar, with the Euro increasing in value relative to the dollar by 20% during the year. In Israel, the New Israel Shekel increased in value relative to the dollar by 8% during 2003. Our results have not been significantly affected by inflation. See “*Impact of Inflation and Exchange Risks*” below;

- Our operating results may also be affected as a result of various other factors, such as general economic conditions; the capital spending patterns of our customers; the level of competition that we encounter; the size and timing of orders, including order deferrals, and subsequent shipments; software and hardware development problems; one-time charges; mergers or acquisitions; and other factors which are more fully described under “Item 3–Key Information–Risk Factors.”

A. OPERATING RESULTS

The following table sets forth the percentage relationships of certain items from our consolidated statements of operations, as a percentage of revenues from continuing operations for the periods indicated:

	Year ended December 31,		
	2003	2002	2001
Revenues	100.0%	100.0%	100.0%
Cost of revenues	56.7	53.6	52.2
Gross profit	43.3	46.4	47.8
Selling and marketing expenses	19.6	23.1	23.2
General and administrative expenses	14.7	15.9	17.9
Research and development costs, net	10.8	8.2	6.6
Restructuring charges	1.6	-	0.6
Amortization of intangibles	5.7	3.5	9.2
Write-down of intangible assets	2.9	-	16.4
Total operating expenses	55.3	50.7	73.9
Operating income (loss)	(12.0)	(4.3)	(26.1)
Financial income (expense), net	(2.6)	(3.7)	(3.2)
Other income (expense) – net	0.8	(30.7)	(14.2)
Write-down of investment in an associated company	-	-	(163.4)
Income before taxes on income	(13.8)	(38.7)	(206.9)
Taxes on income	(2.3)	0.8	(3.2)
Share in losses of associated companies	(5.5)	(4.8)	(73.7)
Minority interests in losses of a subsidiary	3.4	-	-
Net income from discontinued operations	19.5	5.3	7.6
Net income (loss)	1.3%	(37.4)%	(276.2)%

EXPLANATORY NOTES

- **Adjustment to the Equity Method:** Our consolidated financial statements for the period ended December 31, 2001 were adjusted retroactively, in order to reflect, the change in the method of accounting of our investment in Objet Geometries Ltd. from the cost method to the equity method. *See Note 2w to our consolidated financial statements included in this Annual Report.*
- **Consolidation of Scitex Vision:** As a result of the transaction to combine the operations of Scitex Vision and Scitex Vision International that was completed in January 2003, Scitex Vision became a majority owned subsidiary of ours and the parent of Scitex Vision International. Our financial results for the periods ended December 31, 2001 and 2002, included in this Annual Report, did not consolidate Scitex Vision’s financial statements (other than as an investment accounted for under the “equity” method, as applicable), whereas our financial results for the period ended December 31, 2003, included in this Annual Report, consolidate Scitex Vision’s financial statements. *See Note 3a to our consolidated financial statements included in this Annual Report.*

- **Discontinued Operations (SDP):** In January 2004, we completed the sale of substantially all of the assets and business of SDP to Kodak. As a result of the said sale of the business of SDP to Kodak, the results of operations of SDP are reported as discontinued operations and the consolidated results from continuing operations no longer include revenues and expenses directly attributable to SDP. Similarly, assets and liabilities relating to SDP are presented in our balance sheet separately as assets and liabilities of discontinued operations. Our consolidated financial statements for prior periods have been reclassified to reflect these changes. *See Note 1b to our consolidated financial statements included in this Annual Report.*
- **Definition of Segments:** Prior to the sale of SDP's business, the Company had been reporting in two segments: high speed digital printing (SDP) and wide format digital printing (Scitex Vision). In conjunction with the commencement of reporting the results of operations of SDP as a discontinued operation, the Company has modified the definition of its business segments and the Company's results of operations are now reported in one segment - wide format digital printing. *See Notes 1a and 15a to our consolidated financial statements included in this Annual Report.*

FINANCIAL HIGHLIGHTS OF 2003

Despite the challenging market environment in 2003, especially in the capital equipment market, we were able to obtain a significant increase in our annual revenue level from continuing operations compared to 2002, maintain positive operating income and, following two years in which we recorded net losses, achieve net income of approximately \$1.4 million. Some of the key aspects of our operating results in 2003 are as follows:

- Total revenues from continuing operations for the year 2003 were \$102.9 million compared to \$85.7 million in 2002, the increase being primarily due to an improvement of capital investments in the digital printing market in general, and higher demands for our wide and super-wide format products and consumables;
- Net income was \$1.4 million, comprised of \$20 million of net income from discontinued operations (SDP) and \$18.6 million of net loss from continuing operations (mainly, Scitex Vision);
- Significant improvement in our cash balance (comprised of cash, cash equivalents and short term investments) from approximately \$38 million at December 31, 2002 to \$79 million at December 31, 2003 primarily due to the sale of our remainder of our shareholdings in Creo during 2003 for an aggregate sum of approximately \$54 million; and
- From a geographical standpoint, we achieved growth in most markets, although our revenues from sales in the Far East suffered a decline of \$4.2 million (decrease of 25%), mainly due to continuing economic difficulties in Japan and increased competition in China.

COMPARISON OF 2001, 2002 AND 2003

Revenues

Revenues are derived primarily from sales of our digital printing systems, inks, substrates and services in connection with our printing systems. We generally recognize product revenue when persuasive evidence of an arrangement exists, delivery has occurred, the fee is fixed or determinable and collection is probable. Revenues from services are generally recognized ratably over the contractual period or as services are performed. For additional details regarding the manner in which we recognize revenues, see the discussion under the caption "*Critical Accounting Policies - - Revenue recognition and doubtful accounts allowance*" below.

The following table sets forth our revenues from continuing operations (i.e., excluding revenues from the operations of SDP) attributable to our principal sources of revenue/business activities and showing the percentage increase (decrease) for the periods indicated:

	Year ended December 31,				
	(approximate \$ in millions)				
	2001	2002	2003	% Change 2002 vs. 2001	% Change 2003 vs. 2002
Sales	\$ 59.7	\$ 52.8	\$ 60.7	(11.6)%	15.0%
Services	4.2	5.1	5.6	21.4	9.8
Supplies	27.7	27.7	36.6	0.0	32.1
Total Revenues	\$ 91.6	\$ 85.6	\$ 102.9	(6.6)%	20.2%

The following table sets forth our revenues from continuing operations (i.e., excluding revenues from the operations of SDP) by geographical markets and showing the percentage increase (decrease) for the periods indicated:

	Year ended December 31,				
	(approximate \$ in millions)				
	2001	2002	2003	% Change 2002 vs. 2001	% Change 2003 vs. 2002
North America	\$ 18.7	\$ 17.8	\$ 19.6	(4.8)%	10.1%
Mexico	1.2	8.7	15.2	625	74.7
Europe	36.2	37.5	36.9	3.6	(1.6)
Far East	29.9	16.6	12.5	(44.5)	(24.7)
Other countries	5.6	5.0	18.7	(10.7)	274
Total Revenues	\$ 91.6	\$ 85.6	\$ 102.9	(6.6)%	20.2%

The increase of 20.2% in total revenues from continuing operations in 2003 was due primarily to an improvement in capital investments in the digital printing market in general, and higher demands for our products in several countries, which until 2003 generated only a small portion of our revenues. Moreover, we believe that the significant increase in revenues from supplies (mainly, ink sales) was due primarily to higher demands for our compatible inks, which increased in part because of a larger installed base of our systems.

The decrease of 6.6% in total revenues from continuing operations in 2002 compared to 2001 was due primarily to the continuing slow down of capital investments in the digital printing market in general and the lower demands for our products in the Asia Pacific regions during 2002 in particular.

Sales in Mexico and certain other countries rose significantly due primarily to higher demand and improvements in our distribution and sales channels, whereas our revenues from sales in the Far East declined for the second year in a row due primarily to continuing difficulties in China. We believe that Europe and the Americas will continue to generate most of our revenues in the foreseeable future. See the chart regarding our revenues divided by geographical regions in "Item 4B – Customer & Sales" above.

As noted above, as a result of the SDP transaction, the results of operations of SDP are reported as discontinued operations and the consolidated results from continuing operations no longer include revenues and expenses directly attributable to SDP. See Note 1b to our consolidated financial statements included in this Annual Report. Our consolidated results of operations reflect the results of operations of SDP only in the line item of "net income from discontinued operations." For more information about revenues (which amounted to approximately \$170.1 million, \$157.1 million and \$164.6 million in 2003, 2002 and 2001, respectively) and other line items attributable to SDP, you should refer to Note 1b to our consolidated financial statements included in this Annual Report.

Cost of Revenues and Gross Profit

	Year ended December 31,					
	(approximate \$ in millions)			(as percentage of revenue)		
	2001	2002	2003	2001	2002	2003
Cost of revenues	\$47.8	\$ 45.9	\$ 58.3	52.2%	53.6%	56.7%
Gross profit	\$43.8	\$ 39.7	\$ 44.5	47.8%	46.4%	43.3%

Cost of revenues consist of the cost of materials, salaries, depreciation, warranty costs and other direct expenses related to the manufacture of our products and the installation and support of the digital printing systems sold by us. Gross profit is determined as a percentage, the numerator of which is our total revenues less the cost of revenues, and the denominator is our total revenues. Our gross profit is affected by several factors, including the introduction of new products, price erosion due to increasing competition and product mix. Generally, our gross profit is lower during the initial launch and manufacturing ramp-up of a new product as a result of manufacturing inefficiencies during that period. As the difficulties in manufacturing new products are resolved and the volume of sales of such products increases, our gross profit generally improves.

Overall, gross profit in 2003, at 43.3%, was lower compared to 2002, due primarily to price competition and increased costs and expenses associated with the acquisition of Scitex Vision International. Gross profit in 2002, at 46.4%, was lower compared to 2001, due primarily to a decline in our sales which subsequently led to an increase in the overhead and fixed costs in the cost of goods sold as a percentage of sales and as a result of the pressure we experienced on the price of our products throughout 2002.

Operating Expenses

	Year ended December 31,*		
	(approximate \$ in millions)		
	2001	2002	2003
Research and development, gross	\$ 7.1	\$ 7.8	\$ 11.5
Less Royalty-bearing participation	1.0	0.7	0.4
Research and development, net	6.1	7.1	11.1
Sales and Marketing	21.3	19.8	20.2
General and Administrative	16.4	13.6	15.1
Total Operating Expenses	\$ 43.8**	\$ 40.5**	\$ 46.4**

* See Notes 14f and 14g to our consolidated financial statements included in this Annual Report.

**Excluding write-down of goodwill, amortization of other intangible assets, and restructuring charges in the aggregate amount of \$23.9 million, \$3 million and \$10.4 million for 2001, 2002 and 2003, respectively (presented separately below).

Operating expenses. Operating expenses comprise costs and expenses associated with research and development, sales, marketing, and general and administrative. During 2003, we also included write down of goodwill and other intangible assets (see the discussion under the caption "Critical Accounting Policies" below with respect to FAS 142), as well as restructuring charges as described below.

Research and development expenses. Research and development expenses consist primarily of costs associated with the design, technology development, product development, pre-manufacture and testing of our new products and enhancements of our existing products, salaries and related personnel costs, patent prosecution and maintenance costs and, other expenses related to our product development and research programs. We expense all of our research and development costs as they are incurred. The research and development expenses in 2003 increased compared to 2001 primarily because, as of 2003, we consolidate the results of Scitex Vision, which, by comparison to Scitex Vision International, invests more resources in the development of new products. The research and development expenses in 2002 slightly increased compared to 2001 due to investments in new products, including the acquisition of the business of Siantec in April 2002. We expect to continue to invest significant resources in research and development programs for new products and enhancements of existing products and that research and development expenses will remain at the same levels as in 2003.

Selling, marketing and administrative expenses. Selling and marketing expenses consist primarily of salaries, travel, trade shows, promotional and public relations activities and related costs of our sales and marketing personnel, the costs and expenses of our foreign sales and marketing subsidiaries and representative offices and commissions paid to independent sales agents. General and administrative expenses consist primarily of salaries and related costs for our executive and administrative staff, and insurance, legal and accounting expenses, both in Israel and abroad, as well as provision for doubtful debts. Selling, general, marketing and administrative expenses slightly increased in 2003 compared to 2002, whereas there was a slight decrease in 2002 compared to 2001. The slight increase in 2003 is attributable, mainly, to the consolidation of Scitex Vision's operations in our books and increased sales and marketing activities, whereas the slight decrease in 2002 is attributable mainly to lower sales costs. General and administrative expenses in 2003 increased compared to 2002 primarily due to costs associated with the combination of Scitex Vision International with Scitex Vision.

Write-down, Amortization and Restructuring Charges

	Year ended December 31,		
	(approximate \$ in millions)		
	2001	2002	2003
Amortization of Intangible Assets	\$ 8.5	\$ 2.9	\$ 5.9
Write-down of Goodwill and other Intangible Assets	15.0	--	3.0
Restructuring Charges*	\$ 0.5	--	\$ 1.6

* See Note 14h to our consolidated financial statements included in this Annual Report.

Amortization of intangible assets and write-down of goodwill. Expenses for amortization of intangible assets were \$5.9 million in 2003, compared to \$2.9 million in 2002, the increase being primarily due to amortization charges associated with the combination of Scitex Vision International with Scitex Vision. We also had a technology write-off of approximately \$3 million in 2003, primarily associated with intangibles acquired in the context of the acquisition of Siantec by Scitex Vision in 2002. The decrease in expenses for amortization of intangible assets in 2002 compared to 2001 (nearly half of which was related to amortization of technology), was due primarily to our implementation of FAS 142 ("Goodwill and Other Intangible Assets") in 2002, pursuant to which, among other things, goodwill with indefinite lives was no longer amortized (see the discussion under the caption "Critical Accounting Policies" below with respect to FAS 142) and a technology write-off of approximately \$15 million in 2001.

Restructuring charges. We recorded \$1.6 million of restructuring costs in 2003 primarily associated with the combination of the operations of Scitex Vision and Scitex Vision International and implementation of a restructuring plan in Scitex Vision in the form of reduction in work force, abandonment of leased premises and development of new information technology system. In 2002, we did not record any restructuring costs, compared to \$0.5 million in 2001, related to reduction in workforce.

Financial and Other Income and Expenses

Financial income (expenses), net, consists primarily of interest earned on bank deposits, interest incurred on bank and other loans and exchange rate differences. Net financial expenses decreased from \$3.1 million in 2002 to \$2.7 million in 2003, due primarily to interest gained on the funds received from the sale of the Creo shares during the second half of 2003. Net financial expenses slightly increased from 2001 (\$2.9 million) to 2002.

Other income in 2003 totaling \$0.8 million, compared to Other loss \$26.3 million in 2002, consists primarily of a \$2.8 gain from the sale of our remaining shares in Creo which was offset by write-downs of certain investments. Other loss of \$26.3 in 2002, compared to \$13 million in 2001, reflect primarily a loss of approximately \$22.3 million due to an impairment of the carrying value of our shares in Creo that we made during the fourth quarter of 2002.

Convertible loan to Scitex Vision. In 2000, Scitex Vision entered into a collaboration agreement with a European supplier. Under the agreement, the supplier is required to pay royalties to Scitex Vision on sales of ink for use with Scitex Vision's textile printing machines. As of December 31, 2003, no such sales have been made. Scitex Vision also received from the supplier a long-term convertible loan of \$5 million which bears a 6% annual interest, unless certain milestones are met. According to the original terms of the loan, the loan and the accumulated interest may be converted by the supplier, at any time during the last three months of the loan period, which ended on December 11, 2003, into ordinary shares of Scitex Vision at a conversion price based on the fair value of such shares, less 15%. According to the agreement, if the supplier chooses to request the repayment of the loan, the repayment shall be made by setting-off the loan and any interest accrued thereon against royalties due to Scitex Vision in a subsequent period. The remainder of the loan, if it exists, shall be repaid in cash to the supplier. At the end of 2003, the parties agreed that the loan will no longer bear any interest and will be payable in four annual installments commencing December 2004, subject to set-off of royalties due to Scitex Vision under the supply agreement, if any. As a result, Scitex Vision recorded the loan based on its present value using the interest rate which was applicable as of the date of the change in terms. The difference between the present value and the nominal value of the loan in the total amount of \$0.4 million, as well as all interest accrued through December 31, 2003 in the total amount of \$0.9 million, were credited to "financial expenses – net".

Taxes

Israeli companies are generally subject to income tax at the corporate rate of 36%, and, for capital gains derived after January 1, 2003, are subject to capital gains tax at a rate of 25%. See in "Item 5B – Corporate Tax Rate" below for more information.

Taxes on income amounted to approximately \$2.4 million in 2003, compared with a tax benefit of \$0.6 million in 2002 and taxes on income of approximately \$3 million in 2001.

As of the end of 2003, since all deferred taxes were related to the discontinued operations (SDP), an insignificant amount of deferred taxes remained in respect of our continuing operations. During 2003, we increased the valuation allowance for deferred taxes from \$123 million to \$185 million. This increase is due primarily to tax losses carried forward associated with the transaction to combine Scitex Vision and Scitex Vision International that was completed in January 2003 and with the sales of Creo shares during the second half of 2003. See Note 12(e) to our consolidated financial statements included in this Annual Report.

A number of factors may impact future taxable income, including those discussed under "Risk Factors" in Item 3D, as well as any tax planning strategies. To the extent that estimates of future taxable income are reduced or not realized, the amount of the deferred tax asset considered realizable could be adversely affected.

Equity Investments

Our share in the losses of associated companies was \$5.6 million in 2003 compared with \$4.1 million in 2002 and \$67.5 million in 2001. We also wrote down our investment in Creo by approximately \$22.3 million during the fourth quarter of 2002.

Commencing January 2002, we may be deemed to exercise significant influence on Objet. Accordingly, as required by U.S. GAAP, in the first quarter of 2002 we retroactively changed our method of accounting for the investment in Objet from the cost method to the equity method. Consequently, the investment in Objet on our books as of December 31, 2001 was restated and our equity share of the results of Objet is being included in our results of operations starting with the first quarter of 2002. This restatement affected other items of our financial statements for 2001. *Please see Note 2w to our consolidated financial statements included in this Annual Report.*

In February 2004, we invested an additional amount of \$1.5 million in Jemtex and we now hold 73% of Jemtex's voting power. As a result, commencing with the first quarter of 2004, we are consolidating the results of Jemtex with ours.

CRITICAL ACCOUNTING POLICIES

Our discussion and analysis of our financial condition and results of operations included in this Item 5 and elsewhere in this Annual Report are based upon our consolidated financial statements, which have been prepared in accordance with U.S. GAAP. The preparation of these financial statements often requires us to make estimates, judgments and assumptions, which may affect the reported amounts of assets, liabilities, revenues, expenses and related disclosures as of the date of the financial statements and during the reported period. On a regular basis, we evaluate and may revise our estimates. We base our estimates on historical experience and various other assumptions that we believe to be reasonable under the circumstances, the results of which form the basis for making judgments about the carrying values of assets and liabilities that are not readily apparent. Some of those judgments can be complex, and consequently, actual results may differ from those estimates. For any given individual estimate, judgment or assumption made by our management, there may be alternative estimates, judgments or assumptions, which are also reasonable. We believe that the estimates, assumptions and judgments described below have the greatest potential impact on our financial statements and consider these to be our critical accounting policies:

Deferred tax valuation allowance. Deferred taxes are determined utilizing the asset and liability method, based on the estimated future tax effect resulting from differences between the amounts presented in our financial statements and those taken into account for tax purposes, in accordance with the related tax laws, and from tax losses carryforward. Valuation allowances are included in respect of deferred tax assets when it is more likely than not that all or a portion of such assets will not be realized. We have considered future taxable income and ongoing prudent and feasible tax planning strategies in assessing the need for the valuation allowance. Due to the uncertainty as to utilization of the tax losses carryforward, a valuation allowance was provided to reduce our deferred tax assets, because we expect that in the foreseeable future it is not more likely than not that all of the deferred tax assets will be realized. Conversely, the carrying value of our net deferred tax assets assumes that we will be able to generate sufficient future taxable income in certain tax jurisdictions, based on estimates and assumptions. A number of factors may impact future taxable income, including those discussed under "Risk Factors" in Item 3D, as well as any tax planning strategies. To the extent that estimates of future taxable income are reduced or not realized, we could be required to establish additional valuation allowances and the amount of the deferred tax asset considered realizable could be adversely affected by a material amount. If it were determined that we would be able to realize a deferred tax asset in excess of its net recorded amount, an adjustment to deferred tax assets would increase our income.

Treatment of income tax. Our tax returns as well as those of our subsidiaries are subject to examination by tax authorities in various jurisdictions. In general, our management considers tax provisions based on its reasonable estimate of the outcome of the examination. Our management believes that the estimates reflected in the financial statements reflect our tax liabilities. However, our actual tax liabilities may ultimately differ from those estimates if taxing authorities successfully challenge our tax treatment or if we were to prevail in matters for which provisions have been established. Accordingly, our effective tax rate in a given financial statement period may materially change.

Impairment of goodwill, intangible assets and other long-lived assets. Under current accounting standards, we make judgments about the useful lives and fair value of goodwill, other intangible assets and other long-lived assets, including assumptions about estimated future cash flows and other factors to determine the fair value of the respective assets. On January 1, 2002, we adopted FAS 144, "Accounting for the Impairment or Disposal of Long-Lived Assets" and FAS 142, "Goodwill and Other Intangible Assets." FAS 144 requires that long-lived assets be reviewed for impairment and, if necessary, written down to the estimated fair values, whenever events or changes in circumstances indicate that the carrying amount of the assets may not be recoverable through undiscounted future cash flows. FAS 142 generally provides that goodwill and intangible assets (1) with indefinite lives will no longer be amortized and (2) deemed to have an indefinite life will be tested for impairment at least annually. Prior to January 1, 2002, goodwill was amortized by us on a straight-line basis over periods of 7 to 15 years. As a result of the transitional impairment test that we conducted, we determined that no impairment should be recorded in 2002 whereas we amortized intangible assets in 2003 in an approximate amount of \$3 million. Judgments and assumptions about future cash flows and remaining lives are complex and often subjective and can be affected by a variety of external and internal factors. If these estimates or related assumptions change in the future, we may be required to record impairment charges related to these assets.

Revenue recognition and doubtful accounts allowance. Our revenue recognition policy is significant because our revenue is a key component of our results of operations. We follow very specific and detailed guidelines, several of which are discussed below, in measuring revenue; however, certain judgments, estimates and assumptions affect the application of our revenue recognition:

- Revenues from sales of products and supplies are recognized by us when an arrangement (usually in the form of a purchase order) exists, delivery has occurred and title passed to the customer, the price to the customer is fixed or determinable and collection of payment is reasonably assured. With respect to products with installation requirements, revenue is recognized by us when all of the above criteria are met and installation is completed. Sales contracts with distributors stipulate fixed prices and current payment terms and are not subject to the distributor's resale or any other contingencies. Accordingly, sales of finished products to distributors are recognized by us as revenue upon delivery and after title passes to distributors.
- Service revenue is recognized ratably over the contractual period in general, or as services are performed in certain cases.
- The allowance for doubtful accounts is determined as a percentage of specific debts doubtful of collection, the determination of which requires judgment and sometimes estimates of the portion that will be collected in the future. In performing this evaluation, significant judgments and estimates are involved, such as past experience, credit quality of the customer, age of the receivable balance and current economic conditions that may affect a customer's ability to pay, all of which can change rapidly and without advance warning.
- The costs associated with product warranties that we provide our customers are provided at the same time as the revenues are recognized, the determination of which requires us to make estimates and assumptions regarding the extent of future warranty issues and the related costs. We generally calculate the annual provision on the basis of the expected cost of warranty services, based on our past experience.

RECENTLY ISSUED ACCOUNTING STANDARDS

FIN 46. In January 2003, the FASB issued FASB Interpretation No. 46 “Consolidation of Variable Interest Entities.” Under FIN 46, entities are separated into two groups: (1) those for which voting interests are used to determine consolidation and (2) those for which variable interests are used to determine consolidation. FIN 46 explains how to identify Variable Interest Entities (VIE) and how to determine when a business enterprise should include the assets, liabilities, non-controlling interests, and results of activities of a VIE in its consolidated financial statements. FIN 46 is effective as follows: for variable interests in VIEs created after January 31, 2003, FIN 46 applies immediately; for variable interests in VIEs created before that date, FIN 46 applies for public entities as of the beginning of the first interim or annual reporting period beginning after June 15, 2003. On December 24, 2003, FASB issued an Interpretation which clarified and modified FIN 46. To date, the adoption of this standard has not had any impact on our consolidated financial statements.

FAS 132 (revised 2003). In December 2003, the FASB issued SFAS No.132 (revised 2003), “Employers’ Disclosures about Pensions and Other Postretirement Benefits, an amendment of FASB Statements No.87, 88 and 106, and a revision of FASB Statement No.132 (“FAS 132 (revised 2003)”). The statement revises employers’ disclosures about pension plans and other postretirement benefit plans. It does not change the measurement or recognition of those plans. The new rules require additional disclosures about the assets, obligations, cash flows, and net periodic benefit cost of defined benefit pension plans and other postretirement benefit plans. Part of the new disclosures provisions are effective for 2003 calendar year-end financial statements, and accordingly have been applied by Scitex in our consolidated financial statements included in this Annual Report. The rest of the provisions of the statement, which have a later effective date, are currently being evaluated by Scitex.

IMPACT OF RELATED PARTY TRANSACTIONS

We have entered into a number of agreements with certain companies, of which our principal shareholders, Clal and/or Discount, are affiliated.

In December 2002, we entered into a Share Exchange Agreement with Scitex Vision, in which Clal and Discount each held approximately 14% of the share capital, and Scitex Vision International, pursuant to which we combined the operations of such companies. Among other factors considered in deciding to approve the transaction, our board of directors received a written opinion from the financial advisor in connection with the transaction, as to the fairness, from a financial point of view, of the consideration to be paid by us in connection with the transaction. In addition, in July 2003 and May 2004 we, CEI and Discount invested in Scitex Vision in the framework of rights offerings conducted by Scitex Vision.

Please see “Item 7B – Related Party Transactions” below for specific details as to certain related party transactions entered into by us.

We believe that the terms of these related party transactions are not different in any material respect than the terms we could get from unaffiliated third parties. The pricing and/or value of such transactions were arrived based on arms-length negotiations between the parties and, in certain cases, based upon, among other things, opinions of third party financial advisors. Our management reviewed the pricing of such transactions and confirmed that they were not materially different than could have been obtained from unaffiliated third parties.

Under the Companies Law and recently issued Nasdaq rules, certain transactions and arrangements with interested parties require approval by our board of directors and our audit committee and, in some cases, also require approval by our shareholders. In this respect, see the discussion in “Item 6C – Approval of Specified Related Party Transactions under Israeli Law” above.

IMPACT OF INFLATION AND EXCHANGE RISKS

Substantially all of our revenues are in non-Israeli currencies. Sales in the United States and other areas outside of Western Europe and Japan are typically made in dollars, sales in Europe are made primarily in Euro, dollars or pounds sterling, and sales in Japan are made partly in Japanese yen. This gives rise to significant exposure to market risks, mainly from changes in foreign exchange rates. *For more information about these risks and the methods we employ to mitigate these risks, see also "Item 11. Quantitative and Qualitative Disclosures about Market Risk."*

New Israeli Shekel. Historically, the New Israeli Shekel, the Israeli currency, has been devalued in relation to the U.S. dollar and other major currencies principally to reflect the extent to which inflation in Israel exceeds average inflation rates in Western economies. Such devaluations in any particular fiscal period are never completely synchronized with the rate of inflation and therefore may lag behind or exceed the underlying inflation rate. The table below sets forth the annual rate of inflation, the annual rate of devaluation (or revaluation) of the NIS against the U.S. dollar and the gap between them for the periods indicated:

	Year Ended December 31,				
	2003	2002	2001	2000	1999
Inflation (Deflation)	(1.9)%	6.5%	1.4%	0%	1.3%
Devaluation (Revaluation)	(7.6)%	7.3%	9.3%	(2.7)%	(0.2)%
Inflation (devaluation) gap	5.7%	(0.8)%	(7.9)%	2.7%	1.5%

Although a material portion of Scitex's costs relate to the operations of Scitex Vision in Israel, part of these Israeli costs are in dollars or linked to the dollar. Costs not denominated in, or linked to, dollars are translated to dollars, when recorded, at prevailing exchange rates for the purposes of our financial statements. To the extent such costs are linked to the Israeli Consumer Price Index, such costs may increase if the rate of inflation in Israel exceeds the rate of devaluation of the shekel against the dollar or if the timing of such devaluations were to lag considerably behind inflation. Conversely, such costs may, in dollar terms, decrease if the rate of inflation is lower than the rate of devaluation of the shekel against the dollar. Accordingly, our Israeli operations experienced an increase in dollar costs in 1999, 2000 and 2003, and a decrease in 2001 and 2002. The representative dollar exchange rate for converting the shekel to dollars, as reported by the Bank of Israel, was NIS 4.379 on December 31, 2003 (NIS 4.737 on December 31, 2002).

Other currencies. Until the Creo transaction in April 2000, we had substantial operations outside the United States and Israel, and accordingly maintained substantial non-dollar balances of assets, including substantial accounts receivable balances related to sales made in non-dollar currencies, mostly European currencies and Japanese yen. Our general policy was to hedge against the exchange rate exposure arising from the existence of such non-dollar business activities. Subsequent to the Creo transaction, SDP and Scitex Vision established operations of their own outside the United States and Israel, primarily in Europe, but the volume of activity in non-dollar currencies was significantly reduced compared to previous years and, following the sale of SDP's operations in January 2004, is expected to be further reduced. The net impact of currency exchange rate and remeasurement differences between the dollar and other currencies accounted for a net loss of \$1.2 million in 2003, compared to net losses of \$1.5 million in 2002 and \$0.6 million in 2001.

See also "Item 11. Quantitative and Qualitative Disclosures about Market Risk."

B. LIQUIDITY & CAPITAL RESOURCES

OVERVIEW

On December 31, 2003, our working capital was \$159.9 million, compared to \$96.3 million on December 31, 2002. Several conflicting trends affected this item. Working capital improved primarily as a result of an increase of \$41.3 million, in the aggregate, in cash, cash equivalents and short-term investments, as well as an increase of \$26.3 million in current assets attributed to discontinued operations (SDP) and a decrease in short term debt (including the payment of a note underlying a \$18.8 million debt to Creo in April 2003) of approximately \$7.7 million.

We have financed our operations through cash generated from operations, including the proceeds from the sale of our shares in Creo in the second half of 2003 which generated, in the aggregate, approximately \$54 million in cash. Cash, cash equivalents, short-term investments and a restricted deposit at December 31, 2003 were \$79.4 million and short-term bank debt (including current maturities of long-term loans) totaled \$48.0 million compared to \$38.0 million and \$37.1 million, respectively, in 2002. The increase in cash, cash equivalents and short-term investments is attributable primarily to the sale of our shares in Creo. Bank debt due beyond one year totaled \$6.6 million, compared to \$5.5 million in 2002 (see Item 5F below).

Cash Flows

We had negative net cash used in activities in 2003. The net cash flow used in operations in 2003 was approximately \$6.2 million, compared to approximately \$4.4 million of positive operating cash flow in 2002 (and a negative operating cash flow of \$23.2 million in 2001). The decrease in cash flows from operations was due primarily to extended payment terms given to our customers and increased manufacturing activities.

Our investment activities consist primarily of investments and redemptions of short-term bank deposits. In 2003, \$47.5 million was generated from investment activities (excluding \$3.4 million of restricted deposit) compared to \$17.0 million used in investment activities in 2002 (excluding \$20.2 million of restricted deposit) and \$50.0 million generated from investment activities in 2001. The increase in cash generated from investment activities in 2003 is related primarily to \$54 million generated from the sale of Creo shares in June and August 2003. Major uses of cash for investing activities during 2003 included investments in group companies and in fixed assets.

As explained above, our financial income and expenses consist primarily of interest earned on bank deposits, gains and losses from the exchange rate differences of monetary balance sheet items denominated in non-dollar currencies and interest expense paid on short-term bank loans. Net cash used in financing activities in 2003 was approximately \$9.7 million mainly due to the repayment of a \$18.8 million note we issued to Creo, which was offset by Scitex Vision's withdrawals under its credit facilities. Net cash generated from financing activities in 2002 and 2001 was approximately \$4.5 million and \$9.8 million, respectively.

In sum, net cash flow (cash and cash equivalents) decrease in 2003 amounted to \$5.9 million.

Capital Expenditures

Capital expenditures in fixed assets in 2001, 2002, and 2003 were approximately \$15.5 million, \$10.3 million, and \$3.3 million, respectively. Capital expenditures by way of investments in our group companies in 2001, 2002, and 2003 were approximately \$2.0 million, \$3.5 million, and \$15.5 million, respectively.

During 1999 and 2000, we and KBA, our joint venture partner in Karat Digital Press, agreed to provide guarantees in respect of bank credit lines received by Karat. At the end of 2000, the loans guaranteed by us totaled approximately \$18 million, of which we were required to pay \$16.5 million in March 2002. Of such amount, \$14.4 million was repaid to us by KBA.

Credit Facilities

As of December 31, 2003, Scitex Vision's revolving lines of credit and long-term loans for working capital and investments purposes from banks in Israel amounted to \$49.0 million, bearing interest ranging from LIBOR +1.1% to LIBOR +2.3%, partially linked to the dollar and partially to the Euro. As of June 16, 2004, the principal amount outstanding under these credit lines amounted to \$50.0 million.

These credit lines are secured by a floating charge on Scitex Vision's assets, by approximately \$18.2 million of a restricted deposit, and by a loan guarantee of approximately \$0.9 million issued by us for Scitex Vision's benefit. Under these credit lines, Scitex Vision is required to adhere to certain financial and other restrictive covenants such as equity level, profitability and financial ratios. In the past, Scitex Vision failed to meet certain of these covenants but was able to cure such default following negotiations with the banks and by raising additional funds from us and other shareholders of Scitex Vision. However, we cannot assure you that Scitex Vision will be successful in satisfying these covenants in the future.

Most of the short-term bank credit of Scitex Vision is also in dollars, generally at variable rates linked to LIBOR. This includes a short-term bank loan denominated in dollars and bearing interest at a rate of LIBOR + 1.1% to LIBOR + 2.25% per annum (as of December 31, 2003, 2.3% to 3.5%, respectively) in the amount of approximately \$26.5 million. Scitex Vision also has in place other short-term banks loans denominated in Euro and bearing interest of one month LIBOR + 1.75% to LIBOR + 2.3% per annum (as of December 31, 2003, 3.8% to 4.4%, respectively) in the aggregate amount of approximately 11.7 million Euro (representing \$14.7 million based on the exchange rate between the Euro and the dollar as of December 31, 2003), and other credit lines of approximately \$0.7 million in various currencies.

See Item 5F below.

Tax Audits

In Israel, we have received, or are considered to have received, final tax assessments through the 1998 tax year.

In partial settlement of an audit of the Internal Revenue Service (IRS) of our U.S. subsidiaries for the years 1992 through 1996, we consented to a "partial assessment" by the IRS for approximately \$10.6 million of federal taxes on certain agreed upon issues. In June 2002, we received a notice from the IRS assessing \$29.6 million of additional federal income taxes for the years 1992 through 1996. In August 2002, we appealed the proposed additional assessment and in February 2004 reached a settlement with the IRS, whereby we agreed to an assessment of \$5.7 million of additional federal income taxes for these years (rather than \$29.6 million as initially proposed by the IRS, excluding interest accrued thereon). We have previously established balance sheet reserves on account of this audit which, based on our tax consultants' advice, should be sufficient, and, as noted above, we have already made advance payments to the IRS of \$21.5 million on account of this audit until the end of 2003. Accordingly, we estimate that the final additional cash cost of the IRS audit (taking into consideration the full federal tax assessment, state taxes and interest thereon, and after application of the \$21.5 million advance payment), will be in the range of \$7 to \$14 million, out of which \$9.5 million has already been paid in the first half of 2004. We believe we have sufficient balance sheet reserves to cover the anticipated additional payment.

In late 2002, we received a demand from the Israeli Tax Authority (ITA) to make a tax payment of approximately \$2.6 million related to an assessment of an intracompany sale of shares that was effected during 1996 reflecting a much higher valuation to the transaction than the one established by us. In March 2004, we reached an agreement with the ITA, pursuant to which we paid approximately \$30,000 in full settlement for this demand.

In April 2003, Scitex Vision International, our indirect majority owned subsidiary, received a notice from the ITA assessing approximately \$6.5 million (including interest and linkage to the Israeli Consumer Price Index) of Israeli income taxes for the years 1995 through 2000. The dispute related primarily to the interpretation of the benefits to which Scitex Vision is entitled under the Law for the Encouragement of Capital Investments, 1959, and the deduction of certain expenses. Scitex Vision International appealed the proposed assessment and, in January 2004, reached a settlement with the ITA, whereby it agreed to pay approximately \$1.8 million in 24 monthly installments commencing April 2004 in full settlement of the ITA audit for these years as well as for 2001.

In mid-2001, Scitex Vision International filed an application for an advance ruling by Hong Kong's Inland Revenue Department (IRD). In general, such application sought the IRD's approval that Scitex Vision International's sales outside of Hong Kong will be exempt from tax in Hong Kong and that sales within Hong Kong will be subject to a lower tax rate. During 2003, the IRD declined the application. Thereafter, Scitex Vision International sold the local subsidiary and ceased the relevant activity in Hong Kong. Scitex Vision International believes that due to current balance sheet reserves, it is not necessary at this time to establish additional reserves relating to this matter. However, it may be eventually required to pay the IRD material amounts, which may exceed the amount of the reserves to settle this matter, in which event, our results of operations may be adversely affected.

In addition, we are undergoing a number of tax audits in Europe and the tax consequences in Israel of the Creo transaction are still to be determined with the tax authorities. While we believe that based on, among other things, our consultants' advice, we established sufficient reserves for these matters, additional payments may be required at the conclusion of these matters. It is not possible to predict at this time whether and when any eventual payments will be made.

Outlook for 2004

In 2004, we expect our majority owned subsidiary, Scitex Vision, to generate cash from its operations. Our investment activities, which may include investments in group companies, earnout payments for past acquisitions and investments in capital assets, are expected to be higher than the amount of cash generated by our operating cash flow. As described elsewhere in this Annual Report, in June 2004 we paid approximately \$28 million in consideration for the shares purchased by us in the self tender offer and will pay approximately \$90 million to our shareholders in July 2004 as part of the cash distribution. As a result, our shareholders' equity and cash balance will decrease by the same amount.

Our management believes that (after taking into account the self tender offer and cash distribution) existing cash and short-term investments together with available credit lines and funds generated from operations of subsidiaries will be sufficient to meet operating requirements in the year 2004. We may also continue to invest in our subsidiaries and group companies, and in other new companies.

MARKET RISK

For information on our market risk and the use of financial instruments for hedging purposes, see below under "Item 11 – Quantitative and Qualitative Disclosures About Market Risk."

GRANTS FROM THE OFFICE OF THE CHIEF SCIENTIST

From time to time, eligible participants may receive grants under programs of the Office of the Chief Scientist of the Israeli Ministry of Industry, Trade and Labor. Grants received are generally repaid through a mandatory royalty based on revenues from products incorporating know-how developed with the grants. This governmental support is conditioned upon the participant's ability to comply with certain applicable requirements and conditions specified in the Chief Scientist's program and with the provisions of the Law for the Encouragement of Research and Development in the Industry, 1984, and the regulations promulgated thereunder, or the Research and Development Law.

Under the Research and Development Law, research and development programs that meet specified criteria and are approved by the research committee of the Office of the Chief Scientist of the Israeli Ministry of Industry, Trade and Labor are eligible for grants of up to 50% of certain approved expenditures of such programs, as determined by said committee. In exchange, the recipient of such grants is required to pay the Office of the Chief Scientist royalties from the revenues derived from products incorporating know-how developed within the framework of each such program or derived therefrom (including ancillary services in connection therewith), up to an aggregate of 100% of the dollar-linked value of the total grants received in respect of such program, plus interest, or up to 150% thereof in the case of some of our earliest programs.

The Research and Development Law generally requires that the product developed under a program be manufactured in Israel. However, upon the approval of the Chief Scientist, some of the manufacturing volume may be performed outside of Israel, provided that the grant recipient pays royalties at an increased rate, which may be substantial, and the aggregate repayment amount is increased to 120%, 150% or 300% of the grant, depending on the portion of the total manufacturing volume that is performed outside of Israel. Effective April 1, 2003, the Research and Development Law also allows for the approval of grants in cases in which the applicant declares that part of the manufacturing will be performed outside of Israel or by non-Israeli residents and the research committee is convinced that doing so is essential for the execution of the program. This declaration will be a significant factor in the determination of the Office of Chief Scientist whether to approve a program and the amount and other terms of benefits to be granted. For example, the increased royalty rate and repayment amount will be required in such cases.

The Research and Development Law also provides that know-how developed under an approved research and development program may not be transferred to third parties in Israel without the approval of the research committee. Such approval is not required for the export of any products resulting from such research or development. The Research and Development Law further provides that the know-how developed under an approved research and development program may not be transferred to any third parties outside Israel.

The Research and Development Law imposes reporting requirements with respect to certain changes in the ownership of a grant recipient. The law requires the grant recipient and its controlling shareholders and interested parties to notify the Office of the Chief Scientist of any change in control of the recipient or a change in the holdings of the means of control of the recipient that results in a non-Israeli becoming an interested party directly in the recipient and requires the new interested party to undertake to the Office of the Chief Scientist to comply with the Research and Development Law. In addition, the rules of the Office of the Chief Scientist may require prior approval of the Office of the Chief Scientist or additional information or representations in respect of certain of such events. For this purpose, "control" is defined as the ability to direct the activities of a company other than any ability arising solely from serving as an officer or director of the company. A person is presumed to have control if such person holds 50% or more of the means of control of a company. "Means of control" refers to voting rights or the right to appoint directors or the chief executive officer. An "interested party" of a company includes a holder of 5% or more of its outstanding share capital or voting rights, its chief executive officer and directors, someone who has the right to appoint its chief executive officer or at least one director, and a company with respect to which any of the foregoing interested parties owns 25% or more of the outstanding share capital or voting rights or has the right to appoint 25% or more of the directors. Since Scitex currently participates in these programs solely through its subsidiaries and some of its group companies, we do not believe that any non-Israeli who becomes a holder of 5% or more of our outstanding shares is required to comply with the aforesaid notification and undertaking requirements.

The funds available for Office of the Chief Scientist grants out of the annual budget of the State of Israel were reduced in 1998, and the Israeli authorities have indicated in the past that the government may further reduce or abolish Office of the Chief Scientist grants in the future. Even if these grants are maintained, we cannot presently predict what would be the amounts of future grants, if any, that we (or our Israeli affiliated companies) might receive. We recorded grant participation from the Office of the Chief Scientist totaling approximately \$1.0 million in 2001, \$0.7 million in 2002 and \$0.5 million in 2003. Pursuant to the terms of these grants, Scitex Vision is obligated to pay royalties in the range of 3% to 5% of revenues derived from sales of products funded with these grants. However, a portion of the grants are from the MAGNET program that does not bear any royalties. As a member of the Digital Printing Consortium, some of the grants that Scitex Vision received from the Office of the Chief Scientist were pursuant to the “MAGNET” program - a program for research and development of generic technologies within a consortium of commercial companies and academic institutions. In this program, the effective rate of the grants is up to 66% of the expenses and there is no obligation to pay any royalties. However, the MAGNET program requires Scitex Vision to cross license certain technology developed in connection with such program to the other members of the consortium.

As of December 31, 2003, our contingent liability to the Office of the Chief Scientist in respect of grants received was approximately \$4.2 million.

EFFECTIVE CORPORATE TAX RATE

Israeli companies are generally subject to tax at the rate of 36% of taxable income and to capital gains tax at a rate of 25% for capital gains derived after January 1, 2003 (previously, also 36%). However, the manufacturing facilities in Israel of some of our group companies have been granted Approved Enterprise status under the Law for the Encouragement of Capital Investments, 1959. Consequently, these facilities are eligible for tax benefits. The tax benefit is afforded for seven years from the year the relevant facility first earns taxable income, but no later than 12 years from the first year of operating or 14 years from the year in which the approval was granted. Subject to compliance with applicable requirements, the income derived from these Approved Enterprise facilities will be fully tax-exempt during the first two years of the seven-year tax benefit, and will be subject to a reduced tax rate of a maximum of 25% during the remaining five years, but in any event not later than 2006 regarding Approved Enterprise facilities that are already approved and effective. The actual tax rate will depend upon the percentage of non-Israeli holders of the share capital of these companies. In 2003, we do not expect to have taxable income at Scitex, the parent company. *See below under “Item 10E – Taxation” and in Note 12 to our consolidated financial statements for more information on our income taxes including a proposed amendment to Israeli tax law regarding the corporate tax rate.*

The above benefits are conditioned upon our fulfillment of conditions stipulated by the Law for the Encouragement of Capital Investments, the regulations promulgated thereunder and the instruments of approval for the specific investments in Approved Enterprises. If we fail to comply with these conditions, our benefits may be canceled and we may be required to refund the amount of the benefits received, in whole or in part. *See above under the caption “Tax Audits” regarding a settlement of a dispute with the Israeli tax authority in this respect.*

C. RESEARCH AND DEVELOPMENT, PATENTS AND LICENSES, ETC.

Scitex’s research and development efforts, through its subsidiaries, are focused on the development of new products and technologies, as well as enhancing the quality and performance relative to price of our existing products, reducing manufacturing costs and upgrading and expanding our product line through the development of additional features and improved functionality.

Scitex’s research and development activities primarily comprise 102 employees in Scitex Vision’s operations in Israel. In addition, a high proportion of the employees of our group companies are engaged in research and development.

Scitex has taken advantage of royalty-bearing grants in the form of participations in industrial research provided by the Government of Israel. The following table shows the amounts and relative percentages of total research and development expenditures and the royalty-bearing participations therein, for the years indicated:

	Year Ended December 31,					
	2003		2002		2001	
	(Dollars in thousands)					
Total expenditure incurred	\$ 11,537	11.2% ⁽¹⁾	\$ 7,761	9.1% ⁽¹⁾	\$ 7,082	7.7% ⁽¹⁾
Less royalty-bearing participations, from the Government of Israel ⁽³⁾	\$ 467	4.1% ⁽²⁾	\$ 701	9.0% ⁽²⁾	\$ 999	14.1% ⁽²⁾
Net Expenditure	\$ 11,070	10.8% ⁽¹⁾	\$ 7,060	8.2% ⁽¹⁾	\$ 6,083	6.6% ⁽¹⁾

(1) Percentage indicates the ratio of the relevant item to total revenues from continuing operations.

(2) Percentage indicates the ratio of the participations to total research and development expenditure incurred (as shown).

(3) See Note 14f to our consolidated financial statements included in this Annual Report. For further information regarding the Office of the Chief Scientist of the Israeli Ministry of Industry, Trade and Labor, see “Item 5B – Liquidity and Capital Resources—Grants from the Office of the Chief Scientist.”

As of the end of 2003 (and giving effect to the SDP transaction), we, principally through Scitex Vision, own, license or otherwise have rights in over 75 issued patents and 74 patent applications pending in the United States and elsewhere. As part of the Creo transaction in April 2000, we assigned to Creo approximately 250 issued patents and 140 pending patent applications relating to our digital preprint and print-on demand business. Creo granted back to us and our affiliates a non-exclusive license of such intellectual property, including patents, used by us and our affiliates prior to the Creo transaction. As part of the SDP transaction in January 2004, we assigned to Kodak approximately 324 issued patents and 197 pending patent applications relating to our high-speed digital printing business. In addition, a number of issued patents and pending applications are held by our other group companies. We also claim proprietary rights in various technology and trade secrets relating to our products and operations. We also hold a number of trademarks and service marks in the United States and elsewhere, including for the name *Scitex* and the Scitex logo.

See also “Item 4—Business Overview—Intellectual Property and Proprietary Rights.”

D. TREND INFORMATION

- **General.** The deterioration of the global economy starting in the second half of 2001 has resulted in a decline of advertisement spending and consequently a slowdown of capital investments in the digital printing market in which we operate. During 2003, we identified a moderate improvement in the general market for commercial printers equipment. However, we are unable to predict the duration of this trend or the extent of any impact that it may have on our results of operations.
- **Industry.** The printing industry underwent substantial changes over the recent years. Analog, labor intensive processes, characterized by high setup costs and long production runs, are being replaced by digital processes in both the preparation of data for printing (preprint) and in the actual printing process (digital print). The printing industry, which historically grown at GDP rates, experienced strong growth in revenue and profitability in the last few years through the middle of 2001, fueled mainly by increased advertising spending. Since then, and particularly following the events of September 11, 2001, there was a substantial slowdown in activity in this industry, demonstrated by slower replacement of equipment and reduced capital equipment purchases, and there is no assurance that the strong capital spending experienced in the industry through the middle of 2001 will return. During 2003, we identified a moderate improvement in the general market for commercial printers equipment, including in the wide format printing systems segment in which we operate. However, we are unable to predict the duration of this trend or the extent of any impact that it may have on our results of operations. Digital printing growth is driven by the demand for shorter lead times for printed products, variability and personalization of output and the savings derived from elimination of obsolescence and inventory related costs. We believe those trends will continue and even strengthen as the market gets accustomed to new processes and cost-efficiency paradigms. In general, most digital printing application areas have seen double-digit growth rates over the last years partly due to digital processes replacing analog ones and partly due to new print products and applications being developed such as wide and super wide format printing on various types of substrates.

- **Revenue outlook.** We have seen revenues from our continuing operations increase at a 20% rate during 2003 reaching approximately \$103 million. We believe that, subject to general market conditions over which we have no control, we should be at least able to maintain our 2003 revenue level in 2004 and probably show moderate levels of growth.
- **Composition of revenue.** We derived approximately 41% of our revenues from services and consumables, up from 38% in 2002 and 35% in 2001. We cannot predict at this time whether this trend will continue during 2004, as it is influenced by numerous factors beyond our control.
- **Gross margins.** Our gross margins which depend primarily on product and revenue mix, slightly decreased in 2003 compared to 2002, from 46.4% to 43.3%. Although some of our new products and bundled offerings currently carry gross margins lower than our current average, we believe that in 2004 we can slightly improve gross margins compared to 2003, primarily through cost reduction programs and higher equipment manufacturing rate.

E. OFF-BALANCE SHEET ARRANGEMENTS

We have no off-balance sheet arrangements.

F. TABULAR DISCLOSURE OF CONTRACTUAL OBLIGATIONS

The following table summarizes our short-term and long-term contractual obligations as of December 31, 2003:

Contractual Obligations	Payments Due By Period (in \$millions)					
	Total	2004	2005	2006	2007	2008 and thereafter
Long-term debt	\$ 8,256	\$ 1,633	\$ 1,838	\$ 1,335	\$ 1,252	\$ 2,198
Operating leases (vehicles and facilities)	12,107	2,395	2,020	1,751	1,711	4,028
Total contractual cash obligations	\$ 20,363	\$ 4,027	\$ 3,858	\$ 3,086	\$ 2,963	\$ 6,226

As to our royalty obligations and outstanding guarantees as at December 31, 2003, see Note 10 to our consolidated financial statements included in this Annual Report.

ITEM 6. DIRECTORS, SENIOR MANAGEMENT AND EMPLOYEES

A. DIRECTORS AND SENIOR MANAGEMENT

The following table sets forth certain information with respect to our directors and senior management:

Name	Age	Director Since	Position
Ami Erel ^{(1) (2)}	57	2003 ⁽³⁾	Chairman of the Board of Directors
Raanan Cohen ^{(1) (2) (4) (5)}	36	2002	Interim President and Chief Executive Officer; Director
Yahel Shachar	42	—	Chief Financial Officer & Corporate Secretary
Dov Ofer	50	—	President and Chief Executive Officer, Scitex Vision
Avraham Asheri ^{(4) (6) (7)}	66	2000	Director; Chairman of the Audit Committee
Ophira Rosolio-Aharonson ^{(4) (6)}	55	2000	Director
Ariella Zochovitsky ^{(4) (6) (8)}	48	2002	Director
Avraham Fischer ⁽⁹⁾	47	2003	Director
Shay Livnat ^{(9) (10)}	45	2003	Director
Shimon Alon	54	2003	Director
Gerald Dogon ^{(6) (8)}	64	2003	Director
Nachum Shamir	50	2004	Director

(1) Member of the Remuneration Committee of the Board of Directors.

(2) Nominee of Discount and its wholly owned subsidiary.

(3) Also served as director of Scitex from January 2000 to December 2001.

(4) Member of the Financial Investments Committee of the Board of Directors.

(5) Seconded to us by Discount pursuant to the Services Agreement described under “Item 7B – Services Agreements” below. Mr. Cohen is the son of Mr. Eliahu Cohen, a member of the board of directors of Clal, Discount and IDB Holding Corporation Ltd. (“IDB Holding”), and Chief Executive Officer and a director of IDB Development Corporation Ltd. (“IDB Development”).

(6) Member of the Audit Committee of the Board of Directors.

(7) Initially nominated for election as a director by Discount.

(8) An “Outside Director” pursuant to the Companies Law.

(9) Nominee of Clal through CEI, its wholly owned subsidiary.

(10) Mr. Livnat is the son of Avraham Livnat, an affiliate of IDB Holding and the brother of Zvi Livnat, a co-CEO of Clal and a director of IDB Holding, IDB Development, Clal and Discount.

Ami Erel was appointed Chairman of our board of directors in June 2003. He has served as President and Chief Executive Officer of Discount since June 2001. From November 1999 to December 2001, he served as the Chairman and Chief Executive Officer of Elron Electronic Industries Ltd. From 1997 to 1999, Mr. Erel served as President and Chief Executive Officer of Bezeq, The Israel Telecommunications Corp. Ltd. and from 1997 to 1998, he was Chairman of the Board of Directors of PelePhone Communications Ltd. He continues to serve as Chairman of Elron and currently serves as chairman or a director of several companies, including Elbit Systems Ltd., Property and Building Corporation Ltd. and Super-Sol Ltd. He holds a bachelor of science degree in electronic engineering from the Technion, the Israel Institute of Technology, Haifa, Israel.

Raanan Cohen was appointed as Interim President and Chief Executive Officer of Scitex in January 2004. He has also served as Vice President of Discount since August 2001, having previously served as Executive Assistant to the Chief Executive Officer of Discount from 1999. Prior to joining Discount, he was an associate with McKinsey & Company, Inc. in London from 1997. Mr. Cohen is a lawyer, admitted to the Israeli Bar, and from 1994 to 1995 he served as an attorney with S. Horowitz & Co., an Israeli law firm. He is a director of a number of companies in the Discount group, including Cellcom Israel Ltd. and Property & Building Corporation Ltd. Mr. Cohen holds bachelors degrees in law and in economics from Tel Aviv University and a masters degree in management from J.L. Kellogg Graduate School of Management, Northwestern University, Evanston, Illinois.

Yahel Shachar joined Scitex in December 2001 and was appointed Chief Financial Officer and Corporate Secretary in February 2002. Before he joined Scitex, Mr. Shachar served as Chief Operating Officer at BVR Technologies Ltd. from 1998 to 2001. From 1995 to 1998, he was an attorney with Goldfarb, Levy, Eran & Co., an Israeli law firm. Mr. Shachar holds an LL.M. degree from Georgetown University (specializing in corporate, tax and securities law) in Washington, D.C., and an LL.B. degree from the Tel Aviv University, and is a member of the Israeli and New York bar associations.

Dov Ofer was appointed President and Chief Executive Officer of Scitex Vision in January 2002. He served as Scitex Vision's Executive Vice President of Sales, Marketing and Business Development from 1999 to January 2002. Prior to joining Scitex Vision, Mr. Ofer served as the Managing Director of Matan Digital Printing, a company whose super-wide format technology and operations were acquired by Scitex Vision in 1998. He holds a bachelors degree in economics from the Hebrew University of Jerusalem, Israel, and an MBA degree from University of California - Berkeley.

Avraham Asheri is an economics advisor. He served as President and Chief Executive Officer of Israel Discount Bank Ltd. from 1991 until 1998, having previously held the position of Executive Vice President and a member of the bank's Management Committee from 1983. Prior to joining Israel Discount Bank, during a period of 23 years Mr. Asheri held various offices at the Ministries of Industry and Finance, including Director General of the Ministry of Industry and Trade, Managing Director of the Investment Center in Israel and Trade Commissioner of Israel to the United States. He is a member of the boards of directors of several companies, including Elron Electronic Industries Ltd., Kardan Real Estate Ltd., Elbit Systems Ltd. and Discount Mortgage Bank Ltd. Mr. Asheri holds a bachelors degree in economics and political science from the Hebrew University of Jerusalem, Israel.

Ophira Rosolio-Aharonson is an executive director at several private and publicly traded high-tech companies, a strategic business consultant and a partner and advisor to several venture capital firms in Israel and in the U.S. She was a co-founder of Seagull Technology, Inc. and served as CEO of Terra Computers, Inc. in the US from 1992 to 1999. Prior to that she served as a senior executive, holding various managerial positions at Clal Computers & Technology. She is a member of the board of directors of Cimatron Ltd. and OptiSign Ltd. Ms. Rosolio-Aharonson has a bachelors degree in applied mathematics and physics and completed courses required for a masters degree in bio-medical engineering from the Technion - Israel Institute of Technology in Haifa, and is a graduate of the executive business and management program of Tel Aviv University.

Ariella Zochovitzky is the general manager and partner of C.I.G. Capital Investments Group Ltd., a firm of management consultants, which she has managed since July 2001. In addition, she was a partner in two venture capital funds from July 2000 to early 2001 and a general manager and partner in the firm of Zochovitzky & Weinstein, certified public accountants, from 1989 to July 2000. She was previously a partner with the certified public accountants, Kost Forer & Gabbay (a member of Ernst and Young International), which she joined in 1980 as a trainee accountant, subsequently becoming a partner. Ms. Zochovitzky served as a director of several companies and currently serves as a director of Provident Funds Management - Israel Discount Bank Ltd., Elco Holdings Ltd. and Inspire Investments Ltd. She holds a bachelors degrees in economics and accounting from the University of Haifa, Israel, and a masters degree in management from the Tel-Aviv University and Northwestern University (J.L. Kellogg Graduate School of Management). She is a registered CPA in Israel.

Avraham Fischer is the Executive Vice President of IDB Holding Corporation Ltd., the deputy Chairman of IDB Development Ltd. and a co-Chief Executive Officer of Clal. In addition, he is a partner of Fischer, Behar, Chen & Co., an Israeli law firm. Mr. Fischer is the co-founder and co-Chairman of Ganden Tourism and Aviation Ltd., a company holding investments in Israeli companies, operating primarily in the field of tourism and aviation, and is the co-founder and Vice-Chairman of Ganden Holdings Ltd., a company holding investments in companies, operating primarily in the fields of real estate, communications and technologies. He serves as a director of Clal, Discount, American Israeli Paper Mills Ltd., Elron Electronic Industries Ltd., Elbit Systems Ltd., Vyyo Inc. and several other companies. Mr. Fischer is a co-Chairman of Matan, a non-profit organization. Mr. Fischer holds an LL.B. degree from the Tel Aviv University, and is a member of the Israeli bar association.

Shay Livnat is the President and Chief Executive Officer of Zoe Holdings Ltd., a company he founded in 1988, primarily engaged in investments in telecom and high-tech companies. He is a co-Chairman of UPS Israel (United Parcel Service Israel) and UTI (Isuzu GM trucks) Ltd. and serves as a director of Taavura Holdings Ltd. From 1988 to 1998, Mr. Livnat served as CEO of Tashtit Group. He holds a bachelor degree in electrical engineering from Fairleigh Dickinson University, New Jersey, USA.

Shimon Alon served, until June 2003, as Chief Executive Officer of Precise Software Solutions Ltd., a provider of application performance management, having held such position since September 1997, and was also President of Precise from September 1997 until December 2000. He also served as a director of Precise from December 1998. Following the acquisition of Precise by Veritas Software Corp. in June 2003, Mr. Alon served as an executive advisor to Veritas until January 2004. From October 1982 to August 1996, he worked at Scitex and its subsidiaries in various executive management, sales, marketing and customer support capacities, including Senior Executive Vice President of Scitex and President of its Graphic Art Group from November 1995 to August 1996, President and Chief Executive Officer of Scitex America Corp. from May 1995 to July 1996, and Managing Director of Scitex Europe S.A. from February 1993 to May 1995. He holds a degree from the Executive Management Program at the Harvard Business School in Cambridge, Massachusetts.

Gerald Dogon was Chief Financial Officer of DSP Communications, Inc. from August 1994 through October 1998, during which period he also served DSP as Executive Vice President from July 1996 through October 1998 and as Senior Vice President from August 1994 through July 1996. Mr. Dogon also served as a director of DSP from November 1997 to January 1999. From December 1987 to August 1994, he held various senior financial positions with several Israeli companies, including Nilit Ltd., Mul-T-Lock Ltd., Israel General Bank Ltd. and Indigo Ltd. Prior thereto, Mr. Dogon was employed for 16 years by Scitex, where he served as Executive Vice President and Chief Financial Officer from October 1986 to August 1987, Corporate Vice President - Finance from September 1971 to October 1986, and Corporate Secretary from December 1972 to May 1987. He is a director of several private companies and served as a director of Nogatech, Inc. from 1999 to 2000, of Mul-T-Lock Ltd. from 1997 to 1999, and of Contahal Ltd. from 1993 to 1998, and acted as chairman of the audit committee at both Nogatech and Contahal. Mr. Dogon holds a bachelors degree in economics and commerce from the University of Cape Town, South Africa.

Nachum Shamir serves as the President and Chief Executive Officer of Kodak Versamark, Inc. (whose operations were previously those of SDP) and as Vice President of Eastman Kodak Company. From June 2003 to January 2004, Mr. Shamir served as the President and Chief Executive Officer of Scitex. From January 2001 to January 2004, he served as the President and Chief Executive Officer of SDP, having previously served as its Chief Operating Officer since July 2000. Prior thereto, Mr. Shamir was Managing Director and General Manager of Scitex Digital Printing (Asia Pacific) Pte Ltd., from the incorporation of this Singapore-based company in 1994. His prior position was with the Hong Kong based Scitex Asia Pacific (H.K.) Ltd. (now Creo Asia Pacific (H.K.) Ltd.) from 1993. Mr. Shamir holds a bachelors degree in science from the Hebrew University of Jerusalem and a masters degree in public administration from Harvard University.

Additional Information

Tevel Israel International Communications Ltd., for whom Mr. Erel served as the Chairman of the Board of Directors until November 2003, was under a stay of proceedings and managed by a trustee and special manager appointed by an Israeli court due to financial difficulties. In September 2003, Tevel reached an arrangement with its creditors, which was approved by the Israeli court and, consequently, is no longer under a stay of proceedings.

There are no family relationships between any of the directors or members of senior management named above.

See "Item 7A. Major Shareholders – 1980 Voting Agreement" for details of an agreement among major shareholders relating to the election of directors. See Item 8A under the caption "Legal Proceedings" for additional information regarding a lawsuit that concerns certain of our directors and executive officers.

Recent Management Changes

From mid-2003, we underwent several key changes to our management team:

- In May 2003, Mr. Ami Erel was appointed Chairman of our Board of Directors, replacing Mr. Meir Shannie, who had been our Chairman since early 2001 and our director since 1998;
- In January 2004, Mr. Raanan Cohen was appointed our Interim President and CEO, replacing Mr. Nachum Shamir, the former President and CEO of SDP, who had been our President and CEO since June 2003. Mr. Shamir replaced Mr. Yeoshua Agassi, who had been our Interim President and CEO since September 2001;
- Messrs. Avi Fischer, Shay Livnat, Shimon Alon and Nachum Shamir joined our Board of Directors; and
- Mr. Dogon was elected as one of our Outside Directors at our 2003 Annual General Meeting which was held on December 31, 2003. He succeeded Prof. Shmuel Kandel, who had been our Outside Director since 2000.

B. COMPENSATION

The following table sets forth with respect to all directors and senior management of Scitex as a group all cash and cash-equivalent forms of remuneration paid by Scitex during the fiscal year ended December 31, 2003:

	Salaries, fees, directors' fees, commissions and bonuses	Other benefits
All directors and senior management as a group (consisting of 12 persons in 2003)	\$ 848,405	\$ 67,057

Our Outside Directors, Ms. Zochovitzky, and, since December 31, 2003, Mr. Dogon, receive annual directors' fees and participation fees equivalent to the maximum fees that were generally permitted during 2003 for Outside Directors under regulations issued pursuant to the Companies Law (which equated to approximately \$10,500 per annum and a participation fee of approximately \$400 per board or committee meeting), although new regulations were adopted in 2003, which would, in certain circumstances, permit certain companies to pay higher fees. Directors' fees and attendance fees of a similar amount are payable to all of our other directors, other than directors who are affiliated with our principal shareholders. Except as aforesaid, we have not compensated any of our other directors (excluding compensation for our officers).

During 2003, an aggregate sum of approximately \$56,000 was set aside by us to provide pension, retirement and severance benefits to members of our senior management.

As of December 31, 2003, certain of our directors and officers held options to purchase our ordinary shares. See Item 6E below.

C. BOARD PRACTICES

BOARD OF DIRECTORS

According to the Israeli Companies Law and our articles of association, the management of our business is vested in our board of directors. The board of directors may exercise all powers and may take all actions that are not specifically granted to our shareholders. As part of its powers, our board of directors may cause us to borrow or secure payment of any sum or sums of money for our purposes, at times and upon terms and conditions as it determines, including the grant of security interests in all or any part of our property.

Our directors are elected at annual meetings of our shareholders. Except for our Outside Directors, our directors hold office until the next annual meeting of shareholders following the annual meeting at which they were appointed, which is required to be held at least once during every calendar year and not more than fifteen months after the last preceding meeting. Directors may be removed earlier from office by resolution passed at a general meeting of our shareholders. Our board of directors may temporarily fill vacancies in the board until the next annual meeting of shareholders.

There are no arrangements or understandings between us and any of our directors for benefits upon termination of service.

ALTERNATE DIRECTORS

Our articles of association provide that a director may appoint another person to serve as an alternate director. To qualify as an alternate director, a person must be qualified to serve as a director but cannot be a director or the alternate director of another director. An alternate director shall have all the rights and obligations of the director who appointed him or her. The alternate director may not act for such director at any meeting at which the director appointing him or her is present. Unless the time or scope of any appointment is limited by the appointing director, the appointment is effective for all purposes until the appointing director ceases to be a director or terminates the appointment. At present, there are no appointments of alternate directors.

OUTSIDE DIRECTORS

Under the Companies Law, Israeli companies whose shares are listed for trading on a stock exchange or have been offered as securities to the public in or outside of Israel are required to appoint two “Outside Directors”. Our Outside Directors are Ariella Zochovitzky and Gerald Dogon.

The Companies Law provides that a person may not be appointed as an outside director of a company if the person or the person’s relative, partner, employer or any entity under the person’s control has, as of the date of the person’s appointment to serve as an outside director, or had, during the two years preceding that date any affiliation with:

- the company;
- any entity controlling the company; or
- any entity controlled by the company or by its controlling entity.

The term affiliation includes:

- an employment relationship;
- a business or professional relationship maintained on a regular basis;
- control; and
- service as an office holder.

The Companies Law defines the term “office holder” of a company to include a director, the chief executive officer, the chief business manager, a vice president and any officer that reports directly to the chief executive officer.

No person can serve as an outside director if the person’s position or other business creates, or may create conflict of interests with the person’s responsibilities as an outside director or may otherwise interfere with the person’s ability to serve as an outside director. Until the lapse of two years from termination of office, a company may not engage an outside director to serve as an office holder and cannot employ or receive services from that person, either directly or indirectly, including through a corporation controlled by that person.

Outside directors are to be elected by a majority vote at a shareholders’ meeting, provided that either:

- at least one-third of the shares of non-controlling shareholders voted at the meeting vote in favor of the election; or
- the total number of shares voted against the election of the outside director does not exceed one percent of the aggregate voting rights in the company.

The initial term of an Outside Director is three years and may be extended for an additional three years. The term of office of Ms. Zochovitzky and Mr. Dogon commenced in December 2002 and December 2003, respectively.

Outside Directors may be removed from office only by the same percentage of shareholders as is required for their election, or by a court, and then only if the Outside Directors cease to meet the statutory qualifications for their appointment or if they violate their duty of loyalty to the company. Each committee of a company’s board of directors empowered with powers of the board of directors is required to include at least one Outside Director except for the audit committee, which is required to include all Outside Directors.

COMMITTEES OF THE BOARD

Subject to the provisions of the Companies Law, our board of directors may delegate its powers to committees consisting of board members. Our board of directors established the following committees:

Audit Committee. Under the Companies Law, our board of directors is required to appoint an audit committee, which must be comprised of at least three directors, including all of the Outside Directors, but may not include:

- the chairman of the board,
- a controlling shareholder or any relative thereof, or
- any director who is employed by the company or provides services to the company on a regular basis.

Under the Companies Law, the role of the audit committee is:

- to examine irregularities in the management of the company's business, including in consultation with the internal auditor and/or the company's independent accountants, and to recommend remedial measures to the board, and
- to review, and, where appropriate, approve certain related party transactions specified under the Companies Law, which it may not approve unless at the time of approval the two Outside Directors are serving as members of the audit committee and at least one of whom was present at the meeting in which an approval was granted, as more fully described below.

Since our ordinary shares are listed on Nasdaq, we are also subject to Nasdaq rules which currently provide that a listed company is required to have an audit committee consisting of at least three independent directors, all of whom are financially literate and one of whom has accounting or related financial management expertise. Our Audit Committee comprises Mr. Asheri (chairman of the Audit Committee), Ms. Zochovitzky and Mr. Dogon (our Outside Directors) and Ms. Rosolio-Aharonson. In addition, we have adopted a charter as required by the Nasdaq rules.

Our Audit Committee assists the board in fulfilling its responsibility for oversight of the quality and integrity of the our accounting, auditing and financial reporting practices and financial statements and the independence qualifications and performance of our outside auditors. Our Audit Committee also has the authority and responsibility to oversee our outside auditors, to recommend for shareholder approval the appointment and, where appropriate, replacement of our outside auditors and to pre-approve audit engagement fees and all permitted non-audit services and fees.

In May 2004, our Board of Directors resolved to designate the Audit Committee as our Qualified Legal Compliance Committee, or the QLCC. In its capacity as the QLCC, the Audit Committee is responsible for investigating reports made by attorneys appearing and practicing before the SEC in representing us of perceived material violations of U.S. federal or state securities laws, breaches of fiduciary duty or similar violations by us or any of our agents.

Remuneration Committee. Our board of directors has also appointed a remuneration committee, which currently comprises Ami Erel, Avraham Fischer, Gerald Dogon and Raanan Cohen. The role of the remuneration committee is to review the salaries and incentive compensation of our executive officers and to make recommendations on such matters for approval by the board of directors. The members of the remuneration committee also administer our share incentive and stock option plans, subject to additional board approval where required pursuant to the Companies Law.

Financial Investments Committee. Our board of directors has also appointed a financial investments committee, which currently comprises Avraham Asheri, Raanan Cohen, Ophira Rosolio-Aharonson and Ariela Zochovitzky. The role of the financial investments committee is to review and manage our financial and other investments (cash management) in accordance with the principles approved by the board of directors.

INTERNAL AUDITOR

Under the Companies Law, our board of directors is also required to appoint an internal auditor proposed by the audit committee. The role of the internal auditor is to examine, among other things, whether our activities comply with the law and orderly business procedure. The internal auditor may not be an interested party or officer holder, or a relative of any interested party or officer holder, and may not be a member of our independent accounting firm. The Companies Law defines the term “interested party” to include a person who holds 5% or more of the company’s outstanding share capital or voting rights, a person who has the right to appoint one or more directors or the general manager, or any person who serves as a director or as the general manager. Mr. Joseph Ginossar of Fahn, Kanne & Co., an Israeli accounting firm, serves as our internal auditor.

APPROVAL OF SPECIFIED RELATED PARTY TRANSACTIONS UNDER ISRAELI LAW

Fiduciary Duties of Office Holders. The Companies Law imposes a duty of care and a duty of loyalty on all office holders of a company.

The duty of care requires an office holder to act with the level of care with which a reasonable office holder in the same position would have acted under the same circumstances. The duty of care includes a duty to use reasonable means to obtain:

- information on the advisability of a given action brought for his approval or performed by him by virtue of his position; and
- all other important information pertaining to these actions.

The duty of loyalty of an office holder includes a duty to:

- refrain from any conflict of interest between the performance of his duties in the company and the performance of his other duties or his personal affairs;
- refrain from any activity that is competitive with the company;
- refrain from exploiting any business opportunity of the company to receive a personal gain for himself or others; and
- disclose to the company any information or documents relating to the company’s affairs which the office holder has received due to his position as an office holder.

Disclosure of Personal Interests of an Office Holder. The Companies Law requires that an office holder disclose to the company any personal interest that he or she may have, and all related material information known to him or her, in connection with any existing or proposed transaction by the company. The disclosure is required to be made promptly and in any event no later than the board of directors meeting in which the transaction is first discussed. A personal interest of an office holder includes an interest of a company in which the office holder is, directly or indirectly, a 5% or greater shareholder, director or general manager or in which he or she has the right to appoint at least one director or the general manager. In the case of an extraordinary transaction, the office holder’s duty to disclose applies also to a personal interest of a relative of the office holder. An extraordinary transaction is a transaction not in the ordinary course of business, not on market terms, or likely to have a material impact on the company’s profitability, assets or liabilities.

Under the Companies Law, once the office holder complies with the above disclosure requirement, the board of directors is authorized to approve the transaction, unless the articles of association provide otherwise. Nevertheless, a transaction that is adverse to the company's interest may not be approved.

If the transaction is an extraordinary transaction, then it also must be approved by the company's audit committee and board of directors, and, under certain circumstances, by the shareholders of the company. When an extraordinary transaction is considered by the audit committee and board of directors, the interested director may not be present or vote, unless a majority of the members of the board of directors or the audit committee, as the case may be, has a personal interest in the matter. If a majority of members of the board of directors have a personal interest therein, shareholder approval is also required.

Under the Companies Law, all arrangements as to compensation of directors in public companies such as ours generally require the approvals of the audit committee, the board of directors and the shareholders, in that order.

INSURANCE & INDEMNIFICATION OF DIRECTORS AND SENIOR MANAGEMENT

Insurance. Under the Companies Law, a company may, if its articles of association so provide and subject to the provisions set forth in the law, enter into a contract to insure the liability of an office holder for acts or omissions committed in his or her capacity as an office holder of the company for:

- the breach of his or her duty of care to the company or to another person;
- the breach of his or her duty of loyalty to the company, provided that he or she acted in good faith and had reasonable cause to assume that such act would not prejudice the interests of the company; and
- a financial obligation imposed upon him or her in favor of another person.

Our articles were amended in December 2000 to contain provisions in line with the aforesaid provisions and, having obtained the approvals required under the Companies Law and our articles, we have procured the permitted insurance for our office holders. In December 2003, the Company's shareholders set the maximum annual premium for such insurance at \$1,000,000.

Indemnification. Subject to certain qualifications, the Companies Law also permits a company, if its articles of association so provide, to indemnify an office holder for acts or omissions committed in his or her capacity as an office holder of the company for:

- a financial obligation imposed upon him or her by a court judgment, including a settlement or an arbitrator's award approved by court; and
- reasonable litigation expenses, including attorney's fees, expended by an office holder or charged to him or her by a court: (a) in a proceeding instituted against him or her by or on behalf of the company or by another person, (b) in a criminal charge from which he or she was acquitted, or (c) in criminal proceedings in which he or she was convicted of a crime which does not require proof of criminal intent.

In addition, the Companies Law provides that a company's articles may permit the company to indemnify an office holder following a determination to this effect made by the company after the occurrence of the event in respect of which the office holder will be indemnified. It also permits the company to undertake in advance to indemnify an office holder, provided that the undertaking is limited to types of occurrences, which, in the opinion of the company's board of directors, are, at the time of giving the undertaking, foreseeable and to an amount the board of directors has determined is reasonable in the circumstances.

Our articles were amended in December 2000 to contain provisions in line with the aforesaid provisions of the Companies Law relating to indemnification of our office holders. In April 2004, the Company's audit committee, board of directors and shareholders also resolved to indemnify the Company's office holders, including any future director or officer of the Company who may be considered a "controlling shareholder" (as such term is defined under the Companies Law), by providing them with a Letter of Indemnification to be substantially in the form approved by the shareholders. (See Exhibit 4(c)(3) in Item 19 for the form of the Letter of Indemnification to office holders.)

Limitations on Exculpation, Insurance and Indemnification. *The Companies Law provides that a company may not exculpate or indemnify an office holder, or enter into an insurance contract which would provide coverage for any monetary liability incurred as a result of any of the following:*

- a breach by the office holder of his or her duty of loyalty unless, with respect to insurance coverage, the office holder acted in good faith and had a reasonable basis to believe that the act would not prejudice the company;
- a breach by the office holder of his or her duty of care if the breach was committed intentionally or recklessly;
- any act or omission committed with the intent to derive an illegal personal benefit; or
- any fine imposed against the office holder.

In addition, under the Companies Law, exculpation and indemnification of, and procurement of insurance coverage for, our office holders must be approved by our audit committee and our board of directors and, if the beneficiary is a director, by our shareholders.

Our articles also provide that, subject to the provisions of applicable law, we may procure insurance for or indemnify any person who is not an office holder, including without limitation, any of our employees, agents, consultants or contractors.

D. EMPLOYEES

The following table details certain data on the workforce (including temporary employees) of Scitex and its consolidated subsidiaries for the periods indicated*:

As at December 31,			
	2003	2002 ⁽¹⁾	2001 ⁽¹⁾
<i>Approximate numbers of employees by geographic location</i>			
United States	67	45	64
Israel	246	193	208
Europe and elsewhere	142	167	135
Total workforce	455	405	407
<i>Approximate numbers of employees by category of activity</i>			
Research and development	102	68	58
Sales and marketing	53	60	74
Customer support	102	98	94
Operations and logistics	111	99	89
General and administrative	87	80	92
Total workforce	455	405	407

* Excludes the employees of SDP for these years who were transferred to Kodak in connection with the sale of SDP's business in January 2004.

(1) Includes 43 employees of Creo Asia Pacific (H.K.) Ltd., an affiliate of Creo Inc., who were dedicated to providing services to Scitex Vision and being paid by us. In January 1, 2003, Scitex Vision terminated the services of Creo Asia Pacific, and the majority of the above employees were transferred to Scitex Vision.

We maintained substantially the same number of employees during 2001 and 2002. The increase in the number of our employees from 2002 to 2003 resulted mainly due to the acquisition of Scitex Vision International by Scitex Vision. During 2003, we employed on average approximately 16 temporary employees.

We consider our relations with our employees to be good and we have never experienced a strike or work stoppage.

Our employees are not generally represented by labor unions. Nevertheless, with respect to our employees in Israel, certain provisions of the collective bargaining agreements between the Histadrut (General Federation of Labor in Israel) and Israel's Coordination Bureau of Economic Organizations (including the Manufacturers' Association) are applicable to such employees by Israeli governmental order. These provisions principally concern cost-of-living wage increases, paid vacation and holidays, length of the workday, wage tariffs, termination, severance payments and other conditions of employment. However, we generally provide our employees with benefits and conditions beyond the required minimums, including contributing to funds to provide severance.

E. SHARE OWNERSHIP

SECURITY OWNERSHIP OF OUR DIRECTORS AND EXECUTIVE OFFICERS

The following table details as of June 23, 2004 the number of our shares owned (including the shares underlying options or warrants held by such person that are exercisable within 60 days), and stock options held, by members of our senior management.

Name and Address	Number of Shares Owned	Percent of Shares Outstanding	Number of stock options held ⁽¹⁾
Dov Ofer ⁽²⁾	15,000	*	- -

* less than 1% of our outstanding ordinary shares.

(1) Each stock option is exercisable into one ordinary share. All our shares have identical voting rights.

(2) Dov Ofer is the President and CEO of Scitex Vision. The 15,000 shares held by Mr. Ofer are in the form of stock options, which are exercisable within 60 days of the date of this Annual Report. The exercise price of the stock options is \$11.1875.

STOCK OPTION PLANS

From time to time, we grant our employees and directors options to purchase our shares pursuant to our share option plans:

- **1991 Plans.** In September 1991, our shareholders approved two plans, the Scitex Israel Key Employee Share Incentive Plan 1991, primarily designed for employees of Scitex and its subsidiaries located in Israel, and the Scitex International Key Employee Stock Option Plan 1991 (as amended, 1995), primarily designed for employees of Scitex's non-Israeli subsidiaries. Terms of the options granted under the plans, such as length of term, exercise price, vesting and exercisability, are determined by our board of directors. These plans expired in September 2001, except with respect to outstanding options granted under such plans. Accordingly, no further options can be granted under such plans. Outstanding options under the 1991 plans expire at various dates from 2004 through 2011.

- **2001 and 2003 Plans.** In December 2001, our shareholders approved the adoption of the Scitex 2001 Stock Option Plan, primarily designed for key employees of Scitex and its subsidiaries. The aggregate number of shares that were initially authorized and reserved for issuance under the 2001 plan was 750,000 shares. In December 2003, our shareholders approved the adoption of the Scitex 2003 Share Option Plan for our officers, directors and consultants who are Israeli residents. When the shareholders adopted the 2003 plan, they also adopted an amendment to the 2001 plan, as a result of which the number of shares reserved for issuance under the 2001 plan was increased from 750,000 to 1,900,000 with all such reserved shares being available for issuance under either the 2001 plan or the 2003 plan. Terms of the options granted under the plans, such as length of term, exercise price, vesting and exercisability, are determined by our board of directors.

The following table details certain information with respect to the foregoing plans:

	1991 Share Option Plans*	2001 and 2003 Share Option Plans**
Number of shares available for future option awards	0	1,900,000
Number of options exercised	860,295	0
Number of options outstanding	664,362	0
Weighted average exercise price of options outstanding	\$ 10.57	N/A

* The data presented in this column are as of June 17, 2004.

** The data presented in this column are as of the date of this Annual Report.

The foregoing description is qualified in its entirety by reference to the Scitex Israel Key Employee Share Incentive Plan 1991, the Scitex International Key Employee Stock Option Plan 1991 (as amended, 1995), the Scitex 2001 Stock Option Plan (as amended, 2003), and to the Scitex 2003 Share Option Plan which are filed as exhibits in Item 19 of this Annual Report, all of which are hereby incorporated by reference.

Subsidiaries Stock Option Plans. Scitex Vision adopted a share option plan, primarily designed for employees of Scitex Vision and its subsidiaries. This plan permits the granting of options for the purchase of shares in Scitex Vision. During 2003, Scitex Vision granted options under its plan to employees, exercisable, in the aggregate (including options already granted), into approximately 8.8% of its share capital. *In this respect, see also in "Item 7B. Related Party Transactions – Scitex Vision-Scitex Vision International Combination" below.*

REPURCHASE PROGRAM

In May 1998, our board of directors approved a program for our repurchase of up to two million of our ordinary shares, to be held for the benefit of employees within the framework of our stock option plans. These ordinary shares are held by a trustee for the reissue to employees upon the exercise of existing stock options. Under the approved program, we may not purchase ordinary shares from our major shareholders. A balance of 448,975 ordinary shares are held by the trustee pursuant to the program, purchased with funds provided by us. No ordinary shares have been repurchased under this program since August 5, 1999.

ITEM 7. MAJOR SHAREHOLDERS & RELATED PARTY TRANSACTIONS

A. MAJOR SHAREHOLDERS

Unless otherwise stated, all data in this Item 7 is as of June 23, 2004, at which date there were 38,066,363 of our ordinary shares outstanding, excluding:

- the 448,975 ordinary shares purchased by the trustee pursuant to the repurchase program described above; and

- the 4,952,050 ordinary shares purchased by us in the self tender offer described above which are deemed issued but considered treasury shares (or “dormant shares” as such term is defined under the Israeli Companies Law) that carry no rights, including voting rights and the right to receive dividends, while owned by us. These shares will be available for us to sell in the future without further shareholder action (except as required by applicable law).

In all instances, the percentage of ownership is equal to the voting rights of our ordinary shares and all ordinary shares have identical voting rights. In particular, the ordinary shares held by our principal shareholders do not carry different voting rights.

To our knowledge, except as described below, we are not directly or indirectly owned or controlled (i) by any corporation, (ii) by any foreign government or (iii) by any other natural or legal person, nor are there any arrangements, the operation of which may at a subsequent date result in a change in control of Scitex.

The following table sets forth the number of our ordinary shares owned by any person who is known to us to own beneficially more than 5% of our ordinary shares or otherwise affiliated with Discount and/or Clal:

Name and Address	Number of Shares Owned*	Percent of Shares Outstanding*
Clal Electronics Industries Ltd. (“CEI”) ⁽¹⁾ 3 Azrieli Center, Triangular Tower, 45 th Floor 67023 Tel Aviv, Israel	18,702,255 ⁽²⁾	49.13% ⁽²⁾
Discount Investment Corporation Ltd. (“Discount”) ⁽³⁾ 3 Azrieli Center, Triangular Tower, 44 th Floor 67023 Tel Aviv, Israel	18,702,255 ⁽²⁾	49.13% ⁽²⁾
AXA Financial, Inc. 1290 Avenue of the Americas New York, NY 10104 ⁽⁴⁾	2,402,000	6.31%
Mivtach Shamir Holdings Ltd. ⁽⁵⁾	2,090,200	5.49%
Ilanot Discount Ltd. ⁽⁶⁾	263,967	**
Clal Insurance Enterprises Holdings Ltd. ⁽⁷⁾	163,415	**

* The number of shares owned by a shareholder or a group includes shares, if any, that such shareholder or group has the right to receive upon the exercise of options which are exercisable within 60 days as of June 23, 2004.

** Less than 1%.

(1) CEI is a wholly owned subsidiary of Clal. Clal may be deemed to share with its wholly owned subsidiary, CEI, an Israeli company, the power to vote and dispose of our outstanding ordinary shares held by CEI.

(2) Consists of 9,409,532 ordinary shares owned by CEI and 9,292,723 ordinary shares owned by Discount, representing approximately 24.7% and 24.4% of our outstanding shares, respectively. Of the 9,292,723 ordinary shares owned by Discount, 4,880,334 shares are held through DIC Loans Ltd., an Israeli company wholly owned by Discount. Each of Clal and Discount may be deemed to share the power to vote the shares held by the other by virtue of the Voting Agreement between them, as described below.

(3) Discount may be deemed to share with its wholly owned subsidiary, DIC Loans Ltd., an Israeli company, the power to vote and dispose of our outstanding ordinary shares held by DIC Loans Ltd.

(4) Based upon Schedule 13G filed by AXA with the SEC on February 10, 2004, AXA claims sole voting power, as of December 31, 2003, over 2,622,000 shares, of which it had sole dispositive power over 2,402,000 shares. The majority of the shares reported are held by unaffiliated third party client accounts managed by a majority owned subsidiary of AXA, Alliance Capital Management L.P., an investment adviser.

(5) Based on a report received by Scitex on June 24, 2004. The 2,092,200 shares are held by a wholly owned subsidiary of Mivtach Shamir. Mivtach Shamir’s address is 4 Koyfman Street, Tel-aviv 68012, Israel.

- (6) Based on a report received by Scitex on June 28, 2004. As of May 3, 2003, IDB Development and Discount together owned a 45% interest in Ilanot. Ilanot's address is Africa-Israel House, 14 Achad Ha'am Street, Tel Aviv 65142, Israel.
- (7) Based on a report received by Scitex on June 28, 2004. As of May 10, 2003, Clal Insurance is a majority owned subsidiary of IDB Development. Clal Insurance's address is 48 Menachem Begin Road, Tel Aviv 66184, Israel.

Clal, CEI, Discount, IDB Development and IDB Holding

Both Clal and CEI are Israeli companies, holding investments in Israeli companies that operate primarily in the fields of high-tech and electronics. Clal also operates in the fields of cement, textiles, paper and cartons, biotechnology and management of venture capital funds.

Discount is an Israeli company holding investments, predominantly in companies located in Israel or that are Israel-related that operate mainly in the fields of communications, advanced technology, industry, real estate and commerce.

Clal and Discount are both controlled by IDB Development Corporation Ltd. ("IDB Development"), a majority owned subsidiary of IDB Holding. Both IDB Development and IDB Holding are Israeli companies. IDB Development holds investments in various entities, operating primarily in the fields of insurance, real estate, high-tech and electronics. IDB Holding is a holding company that, through IDB Development, holds investments in various entities, operating primarily in the fields of insurance, real estate, high-tech and electronics.

Each of IDB Development's, IDB Holding's, Discount's and Clal's respective shares are listed on the TASE. The principal address of Clal, CEI, Discount, IDB Development and IDB Holding is 3 Azrieli Center, Triangular Tower, Tel Aviv 67023, Israel.

Based upon reports received by Scitex, since May 19, 2003, IDB Holding is controlled by a group comprised of:

- Ganden Investment I.D.B. Ltd. ("Ganden"), a private Israeli company controlled by Nochi Dankner (who is also the Chairman of IDB Holding, IDB Development, Clal and Discount) and his sister Shelly Bergman (who is also a director of IDB Holding, IDB Development, Clal and Discount), that holds 31.02% of the equity and voting power of IDB Holding;
- Manor Investments - IDB Ltd. ("Manor"), a private Israeli company controlled by Ruth Manor (whose husband, Isaac Manor, and their son, Dori Manor, are directors of IDB Holding, IDB Development, Clal and Discount), that holds 10.34% of the equity and voting power of IDB Holding; and
- Avraham Livnat Investments (2002) Ltd. ("Livnat"), a private Israeli company controlled by Avraham Livnat (whose son, Zvi Livnat, is a director of IDB Holding, IDB Development, Clal and Discount, and whose other son, Shay Livnat, is a director of Scitex), that holds 10.34% of the equity and voting power of IDB Holding.

Ganden, Manor and Livnat, owning in the aggregate approximately 51.7% of the equity and voting power of IDB Holding, entered into a shareholders agreement relating to, among other things, their joint control of IDB Holding, the term of which is until May 19, 2023. In addition, Shelly Bergman owns approximately 4.9% of the equity and voting power of IDB Holding, Ganden Holdings Ltd., a private Israeli company controlled by Nochi Dankner and Shelly Bergman, owns approximately 0.1% of the equity and voting power of IDB Holding, Manor Holdings B.A. Ltd., a private Israeli company wholly owned by Isaac Manor and Ruth Manor, owns approximately 0.04% of the equity and voting power of IDB Holding and Avraham Livnat Ltd., a private Israeli company controlled by Avraham Livnat and Zvi Livnat, owns approximately 0.04% of the equity and voting power of IDB Holding.

Based on the foregoing, IDB Holding and IDB Development (by reason of their control of Clal and Discount), Ganden, Manor and Livnat (by reason of their control of IDB Holding) and Nochi Dankner, Shelly Dankner-Bergman, Ruth Manor, and Avraham Livnat (by reason of their control of Ganden, Manor and Livnat, respectively) may be deemed to share with CEI and Discount the power to vote and dispose of Scitex's shares beneficially owned by CEI and Discount (including Discount's wholly owned subsidiary) amounting, in the aggregate, to 49.13% of such shares.

1980 Voting Agreement

On December 1, 1980, Clal (whose holdings of our shares are held by CEI), Discount and PEC Israel Economic Corporation, a company that is currently a wholly owned subsidiary of Discount, entered into a Voting Agreement. Under this agreement, they agreed to vote our shares in concert with respect to the election of our directors and with respect to any ordinary resolution submitted to our shareholders. The agreement also grants rights of first refusal if one of the parties wishes to sell its shares of Scitex to a third party. The agreement was for an initial term of ten years, subject to renewal for additional periods of ten years each unless and until prior notice was given by one party of its intention not to renew. The agreement was automatically renewed and is currently in effect until November 30, 2010.

By reason of the 1980 Voting Agreement, Clal and Discount may be deemed to share the power to vote and dispose of our outstanding ordinary shares held by such companies (including Discount's wholly owned subsidiaries) amounting, in the aggregate, to 49.13% of such ordinary shares.

The foregoing description is qualified in its entirety by reference to the Voting Agreement, dated December 1, 1980, by and among Discount, PEC and Clal which is filed as Exhibit 10.h to our Registration Statement on Form F-1 (filed May 26, 1983) and which is hereby incorporated by reference.

Significant changes in percentage ownership by major shareholders during last three years

At January 1, 2000, Discount (jointly with PEC and DIC Loans) and CEI each held approximately 13% of our outstanding ordinary shares. In January 2000, Discount, PEC and CEI together acquired International Paper Company's 13.2% holding in us, increasing the joint holdings of Discount, PEC and DIC Loans to approximately 19.7% and the holding of CEI to approximately 19.5%, of our outstanding ordinary shares. Subsequent increases in their shareholdings were the result of purchases (in the over-the-counter market) made by CEI (from January 2000) and Discount (from September 2000) through November 2000. In December 2003, PEC transferred all of the ordinary shares held by it to Discount.

In August 2002, Clal and Discount announced that they were considering the possibility of conducting a joint tender offer to acquire between 6% to 10% of our ordinary shares, subject to regulatory requirements and further examination. In December 2002, Clal and Discount announced that they had decided not to conduct such tender offer.

In June 2004, Clal and Discount tendered, in the aggregate, approximately 260,000 ordinary shares in the self tender offer we commenced on May 14, 2004. We purchased from Clal and Discount all of these shares. Following consummation of the tender offer, Discount and Clal beneficially own, in the aggregate, 18,702,255 ordinary shares, representing 49.13% our outstanding ordinary shares, compared to 18,962,020 ordinary shares, representing 44.08% of our outstanding ordinary shares, prior to the tender offer.

Record Holders

As of June 23, 2004, we had 343 shareholders of record, of whom 300 were registered with addresses in the United States, representing approximately 65.6% of our outstanding ordinary shares. These numbers are not representative of the number of beneficial holders of our shares nor is it representative of where such beneficial holders reside since many of these ordinary shares were held of record by brokers or other nominees (including one U.S. nominee company, CEDE & Co., which held approximately 41.8% of our outstanding ordinary shares as of said date).

Duties of Shareholders

Disclosure by Controlling Shareholders. Under the Companies Law, the disclosure requirements that apply to an office holder also apply to a controlling shareholder of a public company. A controlling shareholder is a shareholder who has the ability to direct the activities of a company, including a shareholder that owns 25% or more of the voting rights if no other shareholder owns more than 50% of the voting rights, but excluding a shareholder whose power derives solely from his or her position on the board of directors or any other position with the company.

Extraordinary transactions with a controlling shareholder or in which a controlling shareholder has a personal interest, and the engagement of a controlling shareholder as an office holder or employee, generally require the approval of the audit committee, the board of directors and the shareholders, in that order. The shareholder approval must include at least one-third of the shares of non-interested shareholders voted on the matter. However, the transaction can be approved by shareholders without this one-third approval if the total shares of non-interested shareholders voted against the transaction do not represent more than one percent of the voting rights in the company.

General Duties of Shareholders. In addition, under the Companies Law, each shareholder has a duty to act in good faith toward the company and other shareholders and to refrain from abusing his or her power in the company, such as in shareholder votes. In addition, specified shareholders have a duty of fairness toward the company. These shareholders include any controlling shareholder, any shareholder who knows that it possesses the power to determine the outcome of a shareholder vote and any shareholder who, pursuant to the provisions of the articles of association, has the power to appoint an office holder or any other power with respect to the company. However, the Companies Law does not define the substance of this duty of fairness.

B. RELATED PARTY TRANSACTIONS

Bayside Lease

Since April 2000, Scitex Vision International has leased approximately 21,000 square feet of its principal facilities in the Herzlia Industrial Park, Israel, from Bayside Land Corporation Ltd., an affiliate of Discount. The rent attributable to such premises for the year ended December 31, 2002, was approximately \$0.6 million. As part of its relocation to Netanya, Israel, during 2003, this lease was terminated, effective November 2003.

Clal Insurance

We purchase insurance policies in Israel with a number of insurance companies in respect of which Clal Insurance Company Ltd., an affiliate of CEI and Discount, acted as leader. In certain instances, we were a beneficiary of insurance policies purchased from Clal Insurance Company by a subsidiary of Creo Inc., in which we no longer hold an equity interest. During 2003, we paid premiums on such insurance in insignificant amounts. The extent to which Clal Insurance Company, or other insurance companies to which it is affiliated, participated, varied from policy to policy. All insurance was effected at normal business rates.

Services Agreements

Clal Services Agreement. In November 2001, we entered into a Services Agreement with Clal in connection with the transfer of our corporate offices to facilities leased to Clal at the Azrieli Center, Tel Aviv and the seconding of personnel. Pursuant to the Clal Services Agreement, Clal provided us with office space for our personnel, together with other services, such as accounting, security, information management services (MIS) and cleaning. In addition, Clal seconded certain executives to serve in various management positions in us. In addition, with effect from January 1, 2003, two other Scitex employees became employees of Clal and were seconded back to us for 100% of their work hours. Pursuant to the Clal Services Agreement, other employees of Clal and us may be seconded to each other (on full time or part time basis) on an as-needed basis, as agreed from time to time between the parties.

The Clal Services Agreement provided that certain services may be provided by subsidiaries of Clal or directly from third party suppliers, and Clal may assign its rights and obligations under the Clal Services Agreement, in whole or in part, to its affiliates. Generally, the services rendered (other than the seconding of employees) were to be provided by Clal at the actual cost incurred by Clal for the services and do not include any overhead expense, or general and administrative cost. However, if the actual cost incurred by Clal may not be determined with respect to any service, the cost to us will generally be calculated either (i) on the basis of the proportion of office space occupied by us at Azrieli Center (including, proportionally, by employees seconded to us by Clal and excluding, proportionally, employees seconded to Clal by us), for rental of the facilities and common parts, cleaning, security, local taxes, electricity and all other expenses associated with facility maintenance; or (ii) on the basis of the number of our employees located at Azrieli Center (including, proportionally, those seconded to us by Clal and excluding, proportionally, those seconded to Clal by us) for other, generally unspecified, services. Certain services, such as accounting and MIS services, are at a fixed rate. During 2003, the aggregate cost of the services (including rental), other than the seconding of employees, was approximately \$7,300 per month, compared to \$7,700 per month in 2002. In 2003, we paid Clal the sum of approximately \$430,000 in connection with the seconding of Clal's employees to us.

The audit committees of both us and Clal agreed to periodically review and adjust the services rendered and amounts paid pursuant to the Clal Services Agreement. However, the aggregate changes in respect of (i) the amount payable for seconded employees shall not exceed \$300,000 per annum and (ii) the amount payable for other services provided to us may not exceed \$20,000 per quarter, in both cases, from that envisaged at the commencement of the Clal Services Agreement.

In light of the Discount Services Agreement (described below), which has become effective in January 2004, we and Clal have agreed to suspend substantially all the services provided by Clal to us pursuant to the Clal Services Agreement, including the termination of (1) the use by us of the office space provided by Clal, including related ancillary services (such as cleaning, security and MIS), which are now provided to us by Discount pursuant to the Discount Services Agreement, and (2) the seconding of personnel by Clal to us, which is no longer required. The other provisions of the Clal Services Agreement continue in full force and effect, and Clal may continue to provide certain other services to us pursuant to the Clal Services Agreement.

The Clal Services Agreement was submitted to and approved by our audit committee, our board of directors and our shareholders, in that order. Similarly, the suspension of certain services under the Services Agreement was also submitted to and approved by our audit committee, our board of directors and our shareholders, in that order.

The foregoing description of the Clal Services Agreement is only a summary and does not purport to be complete and is qualified by reference to the full text of the Clal Services Agreement and the amendment thereto filed by us as Exhibit 4(d)(1) in Item 19.

Discount Services Agreement. We entered into a Services Agreement with Discount in connection with the transfer of our corporate offices to facilities leased by Discount at the Azrieli Center, Tel Aviv, and the seconding of one of Discount's senior officers to serve as our President and/or Chief Executive Officer. The Agreement became effective as of January 15, 2004.

Pursuant to the Discount Services Agreement, Discount provides us with office space at the Azrieli Center for our personnel, together with ancillary services, such as cleaning, security and MIS, similar to that previously provided by Clal pursuant to the Clal Services Agreement. In addition, with effect from January 5, 2004, Discount seconded Mr. Raanan Cohen, Vice President of Discount (or another senior officer of Discount if agreed upon by us and Discount) to serve as Interim President and Chief Executive Officer of Scitex, who will dedicate approximately 40% of his work hours to us. We are required to provide to such person an indemnity letter in connection with personal liabilities that may arise from serving in such capacity as provided by us to our other executive officers. Mr. Raanan Cohen currently is also a director of Scitex.

Certain services may be provided by Discount through its subsidiaries or directly from third party suppliers. Discount may assign its rights and obligations under the Discount Services Agreement, in whole or in part, to its affiliates. Generally, the services rendered will be provided by Discount at the actual cost incurred by Discount for the services and will not include any overhead expense, or general and administrative cost. However, if the actual cost incurred by Discount may not be determined with respect to any service, the cost to us will generally be calculated either (i) on the basis of the proportion of the office space occupied by us at Azrieli Center (including a relative part of common areas) for cleaning, security, local taxes, electricity and all other expenses associated with facility maintenance or (ii) on the basis of the number of our employees located at Azrieli Center for other, generally unspecified, services, according to the nature of the service. Certain services, such as MIS, will be charged to us at a fixed rate.

Our audit committee will periodically review the services rendered and amounts paid under the Discount Services Agreement. It is estimated that, initially, the aggregate cost of the services (including the leased office space, but excluding the seconding of Mr. Cohen) will be approximately \$17,000 per fiscal quarter. The specific approval of our audit committees is required for any material increases in the amounts paid under the Discount Services Agreement. However, in no event shall the aggregate increase in the office space occupied by us at Azrieli Center exceed 175% of the office space occupied by us at the commencement of the agreement. We will also pay Discount the sum of NIS 493,000 (currently equivalent to approximately \$110,000) per annum, in connection with the services of Mr. Cohen as our President and CEO. This sum is based upon the actual cost incurred by Discount with respect to the services of Mr. Cohen. In the event of a change in the cost of such services to Discount or, having regard to our needs, the parties agree upon a change in the percentage of the work hours to be dedicated to us by Mr. Cohen (or such other senior officer of Discount who may serve as President and/or Chief Executive Officer of Scitex), the consideration payable for these services shall be increased or decreased accordingly, subject to the approval of our Audit Committee, provided that in no event the sum payable in respect of such services may exceed NIS 750,000 (currently equivalent to approximately \$168,000) per annum.

If either of the parties wish to cease to provide or receive any or all of the services (including the office space), it may do so by giving prior written notice of at least three months to the other party, unless otherwise agreed by the parties. In such circumstances, Discount is required to provide us reasonable cooperation and assistance in order to enable us to implement such service by ourselves, but in no event will such assistance be for more than 30 days from the date of termination.

The Discount Services Agreement was submitted to and approved by our audit committee, our board of directors and our shareholders, in that order.

The foregoing description of the Discount Services Agreement is only a summary and does not purport to be complete and is qualified by reference to the full text of the Discount Services Agreement filed by us as Exhibit 4(d)(3) in Item 19.

Combination of Scitex Vision and Scitex Vision International

In January 2003, we completed a transaction to combine the operations of Scitex Vision International (our then wholly owned subsidiary) and Scitex Vision (in which we held approximately 42.5% of the outstanding share capital) through a share exchange. Pursuant to the Share Exchange Agreement, (1) we sold all of our shares in Scitex Vision International to Scitex Vision (so that Scitex Vision International became a wholly owned subsidiary of Scitex Vision), and (2) Scitex Vision issued to us shares representing approximately 67% of Scitex Vision's outstanding share capital, and agreed to reserve up to approximately 5.9% of its share capital, on a fully diluted and as converted basis, for the issue of stock options to Scitex Vision International's employees (collectively, the "Consideration"). The Consideration is subject to adjustments in our favor, if, at any time prior to the earlier to occur of (1) January 1, 2010 and (2) the closing of an initial public offering of Scitex Vision's equity securities (with minimum requirements as to Scitex Vision's valuation at, and the proceeds of, such offering), any of a number of specified adverse events occur in respect of Scitex Vision. As required in the Share Exchange Agreement, we transferred \$15 million to Scitex Vision International as an investment therein. Immediately following this transaction, we held, in the aggregate, approximately 75.5% of Scitex Vision's outstanding share capital.

Each of Scitex Vision International (for the benefit of Scitex Vision) and Scitex Vision (for our benefit) made customary representations and warranties in the Share Exchange Agreement with respect to each party's respective business operations. We also made limited representations and warranties for the benefit of Scitex Vision. The representations and warranties made by the parties survived for a limited period of one year (until January 2004), except for certain representations that survive until the earlier of the (i) expiration date of the applicable statute of limitations and (ii) closing of an initial public offering of Scitex Vision's equity securities. In the event of damages incurred as result of breach of the representations and warranties made by us or Scitex Vision International or failure to perform covenants or agreements, we are required to indemnify Scitex Vision. Similarly, in the event of damages incurred as result of breach of the representations and warranties made by Scitex Vision or failure to perform covenants or agreements, Scitex Vision is required to indemnify us. The indemnification will be paid out solely in shares of Scitex Vision and is capped, in the aggregate, at \$7 million (if we are required to indemnify Scitex Vision) or \$6 million (if Scitex Vision is required to indemnify us).

This transaction was a "related party transaction" because CEI and Discount, who are our principal shareholders, may have had a personal interest in the transaction by virtue of their shareholdings in Scitex Vision (prior to the transaction, each of CEI and Discount held approximately 14% of Scitex Vision's share capital). Accordingly, as required by the Companies Law, the transaction was approved by our audit committee, board of directors and a special majority of our shareholders, in that order. In addition, the financial advisor in connection with the transaction delivered to our board of directors a written opinion as to the fairness, from a financial point of view, of the consideration to be paid by us in connection with the transaction.

The foregoing description of the Share Exchange Agreement is only a summary and does not purport to be complete and is qualified by reference to the full text of the agreement filed by us as Exhibit 4(d)(2) to Item 19.

We face litigation in connection with this transaction, as more fully described in Item 8 under the caption "Legal Proceedings."

Rights Offerings by Scitex Vision

In July 2003 and May 2004, Scitex Vision concluded rights offerings to its shareholders in which we invested approximately \$5.0 million and \$4.2 million, respectively, in accordance with our pro rata share of such offering. Clal and Discount, our two principal shareholders who are also shareholders of Scitex Vision, invested their pro rata share of the rights offerings in an aggregate of approximately \$0.9 million each.

The investments were carried through convertible loans, which have a five year maturity period and bear an interest at the rate of the higher of (i) LIBOR + 1% per annum and (ii) the Israeli consumer price index. The principal amount of the loans, including interest accrued thereon, may be converted into shares of Scitex Vision at a specified conversion price (subject to adjustments for specified events):

- The conversion price of the July 2003 loan reflects the valuation of the aforesaid combination of Scitex Vision and Scitex Vision International in January 2003 (i.e., valuation of \$54 million for the combined entities).
- The conversion price of the May 2004 loan reflects a valuation of \$60 million to Scitex Vision, and is based upon, among other things, a written opinion of a financial advisor retained by Scitex Vision's board of directors.

In addition, we and the other lenders received warrants to purchase additional shares of Scitex Vision with 25% coverage of the principal amount of the loans, exercisable for a period of five years at an exercise price equal to the conversion price of the loans, as applicable. Other key terms of the loans include the subordination of the loans to senior bank loans and the grant of registration rights with respect to the securities underlying the loans and warrants.

Prior to the July 2003 rights offering, Scitex Vision's share capital was divided into ordinary shares and several series of preferred shares. In conjunction with the rights offering, Scitex Vision reclassified its share capital by way of converting all preferred shares into ordinary shares and currently has only one class of shares, the ordinary shares, outstanding.

Following our investment in the rights offerings, we now hold an approximate 75.5% interest (68.5% on a fully-diluted basis) in Scitex Vision whereas Clal and Discount each hold an approximate 7% interest.

We face litigation in connection with these transactions, as more fully described in Item 8 under the caption "Legal Proceedings."

Other

During 2003, we maintained business relationships and entered into various other transactions in the ordinary course of business with a number of other companies affiliated with our major shareholders, all on terms which management believes were no less favorable to us than would be obtained in transactions with unaffiliated third parties.

C. INTERESTS OF EXPERT AND COUNSEL.

Not applicable.

ITEM 8. FINANCIAL INFORMATION

A. CONSOLIDATED STATEMENTS AND OTHER FINANCIAL INFORMATION

FINANCIAL STATEMENTS

Our consolidated financial statements are listed in Item 18.

EXPORT SALES

During 2003, Scitex, through its consolidated subsidiaries, had export sales from both the United States and Israel. Export sales from the United States were primarily of products manufactured by discontinued operations (SDP) and amounted to \$112.4 million in 2003, compared to approximately \$93.9 million in 2002 and \$94.4 million in 2001. Export sales from Israel were of products manufactured by Scitex Vision and amounted to \$59.3 million in 2003, compared to approximately \$51.5 million in 2002 and to \$59.6 million in 2001. Altogether, export sales (from Israel only) in 2003 accounted for 58% of total net sales, compared to approximately 60% in 2002 and 65% in 2001.

LEGAL PROCEEDINGS

We are from time to time named as a defendant in certain routine litigation incidental to our business. Except as described below, we are currently not party to any legal proceedings which would reasonably be expected to have a material adverse effect on our financial position.

- In October 2003, an NIS 14 million (approximately \$3.1 million) lawsuit was filed by CDI, one of Scitex Vision's shareholders, against us, Scitex Vision and others, mainly other shareholders of Scitex Vision (among them, our two largest shareholders, Clal and Discount) and the directors of Scitex Vision in the period relevant for the lawsuit (three of whom are our present or former office holders). The lawsuit generally alleges that the terms of the transaction to combine the operations of Scitex Vision and Scitex Vision International and the manner in which it was effected prejudiced the rights of CDI as a minority shareholder of Scitex Vision (*see Item 7B above*). In November 2003, CDI also sent a demand letter to Scitex Vision, as a preliminary step for a derivative action, whereby CDI demanded that Scitex Vision initiate a lawsuit against us, Scitex Vision International and Scitex Vision's directors in the period relevant for the claim for an alleged breach of fiduciary duties of the directors and misrepresentations in connection with an undertaking by Scitex to transfer \$15 million to Scitex Vision International as part of the aforesaid transaction. Scitex Vision rejected these demands.
- In December 2003, a separate motion was filed by CDI against us, Scitex Vision, and two other shareholders of Scitex Vision in connection with Scitex Vision's rights offering that was concluded in July 2003 (*See Item 7B above*). In particular, the motion alleges that the reorganization of Scitex Vision's share capital that was effected in conjunction with the rights offering was invalid and prejudiced the rights of CDI. In light of its allegations, CDI requested that the court order the defendants to provide information and documents with respect to this matter.
- In late May 2004, CDI filed another lawsuit against us, Scitex Vision, Clal and Discount in connection with Scitex Vision's rights offering that was concluded in May 2004 (*See Item 7B above*). The lawsuit generally alleges that the terms of the transaction and the manner in which it was effected prejudiced the rights of CDI as a minority shareholder of Scitex Vision. CDI requested the court to order that the resolutions of Scitex Vision's audit committee, board of directors and general meeting of shareholders authorizing the transaction be annulled, and that the transaction is void.

We and Scitex Vision do not believe that these claims have merit and we intend to vigorously defend our position on these issues. However, we cannot assure you the outcome of any such litigation at this time or whether CDI may initiate further legal proceedings against Scitex Vision or us.

In addition, see the discussion in Item 5B under the caption “*Tax Audits.*”

DIVIDEND POLICY

Except as described below, we did not distribute any dividends (in cash or otherwise), bonus shares or declared any split, recapitalization or make any rights offerings to the holders of our shares since the third quarter of 1996. We continually review our dividend policy and the payment, or non-payment, of a dividend should not be considered indicative as to the payment of future dividends. *For general information on the applicable tax rate on dividends, please see in “Item 10E. Tax” below.*

On June 22, 2004, we announced a distribution of \$2.36 per ordinary share, or approximately \$90 million in the aggregate, payable on July 12, 2004 to our shareholders of record as of June 30, 2004.

B. SIGNIFICANT CHANGES

Except as otherwise disclosed in this Annual Report, no significant change has occurred since December 31, 2003. In particular, please see the description of the sale of our SDP business to Kodak in January 2004, under Item 10C “Additional Information—Material Agreements.”

ITEM 9. THE OFFER AND LISTING

A. OFFER AND LISTING DETAILS

Our ordinary shares are listed and traded on the Nasdaq National Market, or Nasdaq, and the Tel Aviv Stock Exchange, or the TASE, both under the symbol “SCIX”. The shares commenced trading on the TASE on January 7, 2001 and on Nasdaq on May 20, 1980.

All share prices on Nasdaq are reported in U.S. dollars and all share prices on the TASE are reported in NIS. As of December 31, 2003, the exchange rate was equal to approximately NIS 4.379 per \$1.00 (NIS 4.737 on December 31, 2002).

The following table sets forth, for the periods indicated, the high and low closing sales prices per ordinary share on Nasdaq and on the TASE as reported in published financial sources:

Annual High and Low	Nasdaq National Market		The Tel Aviv Stock Exchange	
	High	Low	High	Low
1999	\$ 16.06	\$ 8.44	--	--
2000	\$ 18.75	\$ 6.56	--	--
2001	\$ 9.75	\$ 2.75	NIS 41.40	NIS 12.06
2002	\$ 5.50	\$ 1.26	NIS 25.08	NIS 6.04
2003	\$ 5.16	\$ 1.22	NIS 24.15	NIS 6.10
Quarterly High and Low				
2002				
First Quarter	\$ 5.50	\$ 3.07	NIS 25.08	NIS 13.99
Second Quarter	\$ 3.15	\$ 2.01	NIS 15.60	NIS 10.09
Third Quarter	\$ 2.20	\$ 1.33	NIS 10.60	NIS 6.85
Fourth Quarter	\$ 1.90	\$ 1.26	NIS 9.17	NIS 6.04
2003				
First Quarter	\$ 1.89	\$ 1.22	NIS 8.54	NIS 6.10
Second Quarter	\$ 2.59	\$ 1.63	NIS 11.30	NIS 7.92
Third Quarter	\$ 3.36	\$ 2.50	NIS 14.93	NIS 10.91
Fourth Quarter	\$ 5.16	\$ 3.20	NIS 24.15	NIS 14.42
2004				
First Quarter	\$ 5.67	\$ 5.08	NIS 26.38	NIS 23.05
Most Recent Six Months				
December 2003	\$ 5.16	\$ 4.93	NIS 23.12	NIS 21.25
January 2004	\$ 5.67	\$ 5.22	NIS 26.38	NIS 23.10
February 2004	\$ 5.45	\$ 5.08	NIS 24.51	NIS 23.05
March 2004	\$ 5.65	\$ 5.27	NIS 25.60	NIS 24.15
April 2004	\$ 5.89	\$ 5.54	NIS 27.04	NIS 25.10
May 2004	\$ 5.84	\$ 5.59	NIS 27.03	NIS 25.66
June 2004*	\$ 6.14	\$ 5.59	NIS 27.84	NIS 25.31

* Through June 28, 2004.

B. PLAN OF DISTRIBUTION.

Not Applicable.

C. MARKETS.

Our ordinary shares trade on Nasdaq and, with effect from January 7, 2001, the TASE. The shares trade in both markets under the symbol "SCIX".

D. SELLING SHAREHOLDERS.

Not Applicable.

E. DILUTION.

Not Applicable.

F. EXPENSES OF THE ISSUE.

Not Applicable.

ITEM 10. ADDITIONAL INFORMATION

A. SHARE CAPITAL

Not Applicable.

B. MEMORANDUM AND ARTICLES OF ASSOCIATION

Set out below is a description of certain provisions of our Memorandum of Association and Articles of Association, and of the Israeli Companies Law related to such provisions. This description is only a summary and does not purport to be complete and is qualified by reference to the full text of the Memorandum and Articles which are incorporated by reference to exhibits to this Annual Report and by Israeli law.

We were first registered under Israeli law on November 2, 1971 as a private company, succeeding a predecessor corporation, Scientific Technology Ltd., which was founded on September 5, 1968. In May 1980 we became a public company. We are registered with the Registrar of Companies in Israel under number 52-003180-0.

OBJECTS AND PURPOSES

Pursuant to Section 2(I)(a) of our Memorandum of Association, the principal object for which we are established is to engage in the activity or business of, *inter alia*, developing, manufacturing, producing, vending, purchasing, licensing, leasing, importing, exporting, or otherwise dealing in any products and moveable property of every kind and description, and to engage in selling, promoting, leasing, licensing, importing, exporting, or otherwise dealing in, any services. We may also acquire, create, form, operate, encourage or otherwise promote or manage any kind of enterprise.

DIRECTORS

The Companies Law requires that transactions between a company and its office holders (which term includes directors) or that benefit its office holders, including arrangements as to the compensation of office holders, be approved as provided for in the Companies Law and the company's articles of association. *(For further information as to such approval provisions, see "Item 6. Directors, Senior Management and Employees - Board Practices - Approval of Specified Related Party Transactions under Israeli Law".)*

Under our Articles, in general, the management of our business is vested in the Board of Directors, which may exercise all such powers, including the power to borrow or secure the payment of any sum or sums of money for the purposes of the Company, in such manner, at such times and upon such terms and conditions in all respects, as it thinks fit.

There is no requirement under our Articles or Israeli law for directors to retire on attaining a specific age. The Articles do not require directors to hold our ordinary shares to qualify for election.

SHARES

Our registered capital is divided into 48,000,000 ordinary shares of nominal (par) value NIS 0.12 each. There are no other classes of shares. All of our outstanding shares are fully paid and non-assessable. The shares do not entitle their holders to preemptive rights.

Subject to the rights of holders of shares with special rights (which may be issued in the future), holders of paid up ordinary shares are entitled to participate in the payment of dividends and, in the event of our winding-up, in the distribution of assets available for distribution, in proportion to the nominal value of their respective holdings of the shares in respect of which such dividend is being paid or such distribution is being made. Our Articles do not specify any time limit after which dividend entitlement lapses.

Each ordinary share is entitled to one vote on all matters to be voted on by shareholders, including the election of directors. Our ordinary shares do not have cumulative voting rights. As a result, the holders of our ordinary shares that represent a simple majority of the voting power represented at a shareholders meeting and voting at the meeting have the power to elect all of the directors put forward for election, subject to specific requirements under the Companies Law with respect to the election of “Outside Directors”. *(For further information as to these requirements, see “Item 6C. Board Practices - Outside Directors”).*

The Companies Law requires that extraordinary transactions with a controlling shareholder or in which a controlling shareholder has a personal interest, and the engagement of a controlling shareholder as an office holder or employee, be approved as provided for in the Companies Law, which may necessitate the approval of at least one-third of the shares of non-interested shareholders voting on the matter. *(For further information as to such provisions, see “Item 7A. Major Shareholders - Duties of Shareholders”).*

VARIATION OF RIGHTS

Shares with preferential rights relating, among other things, to dividends, voting and repayment of share capital can be created by adoption of a “special resolution”, which requires approval by at least 75% of the voting power represented at the meeting in person or by proxy and voting thereon. In addition, through a special resolution, we can subdivide issued and outstanding ordinary shares. Modification or abrogation of the rights of any class of shares requires the written consent of the holders of 75% of the issued shares of such a class or adoption of a special resolution by affected shareholders voting separately as a class.

GENERAL MEETINGS

Our Articles provide that an annual general meeting must be held at least once in every calendar year at such time within a period of not more than 15 months after the holding of the last preceding annual general meeting, and at such place, as may be determined by the Board of Directors. Our Board of Directors may, in its discretion, convene additional shareholder meetings and, pursuant to the Companies Law, must convene a meeting upon the demand of two directors or one quarter of the directors in office or upon the demand of the holder or holders of five percent of our issued share capital and one percent of our voting rights or upon the demand of the holder or holders of five percent of our voting rights.

Under the Companies Law, shareholder meetings generally require prior notice of not less than 21 days. The function of the annual general meeting is to receive and consider the directors’ report, profit and loss account and balance sheet, to elect directors and appoint auditors and fix their fees, and to transact any other business which under the Articles or by law are to be transacted at our annual general meeting.

The quorum required for either an ordinary (regular) or an extraordinary (special) meeting of shareholders consists of at least two shareholders present in person or by proxy and holding or representing between them at least one-third of our voting power. If a meeting is convened at the request of shareholders and no quorum is present, it shall be dissolved. If a meeting is otherwise called and no quorum is present, the meeting is adjourned to the same day one week later at the same time and place, or to such other day time and place as our Chairman may determine with the consent of a majority of the voting power represented at the meeting and voting on the question of an adjournment. Two or more shareholders present in person or by proxy and holding or representing between them at least one-third of our voting power shall constitute a quorum at the adjourned meeting.

Generally, under the Companies Law and our Articles, shareholder resolutions are deemed adopted if approved by the holders of a simple majority of the voting rights represented at a meeting unless a different majority is required by law or pursuant to our Articles. The Companies Law provides that resolutions on certain matters, such as amending a company's articles of association, assuming the authority of the board of directors in certain circumstances, appointing auditors, appointing external directors, approving certain transactions, increasing or decreasing the registered share capital and approving a merger with another company must be made by the shareholders at a general meeting. A company may determine in its articles of association certain additional matters in respect of which resolutions by the shareholders in a general meeting will be required.

A company such as us, incorporated prior to February 1, 2000, is subject to various rules with respect to the transition from being governed by the Israeli Companies Ordinance [New Version], 5743 – 1983, to being governed by the Companies Law. These rules provide, among other things, that any amendment to the Memorandum or Articles will generally require a resolution adopted by the holders of 75% or more of the voting power represented and voting at a general meeting, and that the approval of a merger will require a resolution adopted by the holders of 75% or more of the voting power represented and voting at a general meeting, unless and until we amend our Articles in such manner to provide for a different majority.

Subject to the Companies Law, a resolution in writing signed by the holders of all of our ordinary shares entitled to vote at a meeting of shareholders or to which all such shareholders have given their written consent will be sufficient to adopt the resolution in lieu of a meeting.

LIMITATION ON RIGHTS TO OWN SHARES

Our Memorandum of Association, our Articles and Israeli law do not restrict in any way the ownership or voting of ordinary shares by non-residents or persons who are not citizens of Israel, except with respect to subjects of nations which are in a state of war with Israel. Fully paid ordinary shares may be freely transferred pursuant to our articles of association unless the transfer is restricted or prohibited by another instrument.

DIVIDEND AND LIQUIDATION RIGHTS

Dividends on our ordinary shares may be paid only out of profits and other surplus, as defined in the Companies Law, as of the end of the most recent fiscal year or as accrued over a period of two years, whichever is higher. Our board of directors is authorized to declare dividends, provided that there is no reasonable concern that payment of the dividend will prevent us from satisfying our existing and foreseeable obligations as they become due. Notwithstanding the foregoing, dividends may be paid with the approval of a court, provided that there is no reasonable concern that payment of the dividend will prevent us from satisfying our existing and foreseeable obligations as they become due. In the event of our liquidation, after satisfaction of liabilities to creditors, our assets will be distributed to the holders of ordinary shares in proportion to their respective holdings. This liquidation right may be affected by the grant of preferential dividends or distribution rights to the holders of a class of shares with preferential rights that may be authorized in the future.

CHANGE OF CONTROL

There are no specific provisions of our Memorandum or Articles that would have an effect of delaying, deferring or preventing a change in control of us or that would operate only with respect to a merger, acquisition or corporate restructuring involving us (or any of our subsidiaries). However, certain provisions of the Companies Law may have such effect.

The Companies Law includes provisions that allow a merger transaction and requires that each company that is a party to a merger have the transaction approved by its board of directors and a vote of the majority of its shares, at a shareholders' meeting called on at least 21 days' prior notice. For purposes of the shareholder vote, unless a court rules otherwise, the merger will not be deemed approved if a majority of the shares held by parties other than the other party to the merger, or by any person who holds 25% or more of the shares or the right to appoint 25% or more of the directors of the other party, vote against the merger. Upon the request of a creditor of either party to the proposed merger, the court may delay or prevent the merger if it concludes that there exists a reasonable concern that as a result of the merger, the surviving company will be unable to satisfy the obligations of any of the parties to the merger. In addition, a merger may not be completed unless at least 70 days have passed from the time that a proposal of the merger has been filed with the Israeli Registrar of Companies.

The Companies Law also provides that an acquisition of shares of a public company must be made by means of a tender offer if as a result of the acquisition the purchaser would become a 25% shareholder of the company and there is not any other existing shareholder who holds 25% or more of the company. An acquisition of shares of a public company must be made by means of a tender offer if as a result of the acquisition the purchaser would become a 45% shareholder of the company and there is no existing majority shareholder in the company. If following any acquisition of shares, the acquirer will hold 90% or more of the company's shares, the acquisition may not be made other than through a tender offer to acquire all of the shares of such class. If more than 95% of the outstanding shares are tendered in the tender offer, all the shares that the acquirer offered to purchase will be transferred to it. However, the remaining minority shareholders may seek to alter the tender offer consideration by court order.

Lastly, Israeli tax law treats some acquisitions, such as stock-for-stock exchanges between an Israeli company and a foreign company, less favorably than U.S. tax laws. For example, Israeli tax law may, under certain circumstances, subject a shareholder who exchanges his ordinary shares for shares in another corporation to taxation prior to the sale of the shares received in such stock-for-stock swap.

NOTIFICATION OF SHAREHOLDING

There are no specific provisions of our Memorandum or Articles governing the ownership threshold above which shareholder ownership must be disclosed.

CHANGES IN CAPITAL

Our Articles require that changes in capitalization must be adopted by special resolution, approved by the holders of 75% or more of the voting power represented and voting at a general meeting. Subject thereto, the conditions imposed by our Memorandum and Articles governing changes in the capital, are no more stringent than is required by Israeli law.

C. MATERIAL CONTRACTS

SALE OF SDP'S BUSINESS

On November 24, 2003 we entered into an Asset Purchase Agreement with Eastman Kodak Company, or Kodak, whereby Kodak agreed to acquire substantially all of the assets and business of Scitex Digital Printing, Inc. (SDP), a wholly-owned US subsidiary of Scitex, for \$250 million in cash and assumed substantially all of SDP's liabilities related to the ongoing business. In addition, as part of the transaction, we retained \$12 million of SDP's cash balance at closing, producing total cash consideration for the transaction of \$262 million.

We completed the sale on January 5, 2004. At closing, \$15 million of the proceeds of the sale, which amount was released 20 business days after closing, was placed in a custody account to cover unknown federal tax liens. Furthermore, \$10 million of the proceeds of the sale was placed in a custody account to cover possible indemnification claims. Such amount is to be held in the custody account for two years following the closing date (until January 5, 2006) subject to extension to allow any claims to be resolved. In the absence of claims, the amount held in the custody account could be reduced to \$5 million at the first anniversary of closing. We made representations and warranties in the purchase agreement for the benefit of Kodak, which generally survive for a period of two years following the closing of the transaction or, for certain matters, the expiration of the applicable statute of limitations. We agreed to indemnify Kodak from damages or losses arising from any breach of the representations and warranties, subject to certain limitations (including customary deductibles, de minimis exceptions and caps) detailed in the purchase agreement. We also agreed to indemnify Kodak against any damages or losses arising from any breach of a covenant or agreement made by us in the purchase agreement or from any liability of SDP that we retained under the terms of the purchase agreement. We are obligated to satisfy these indemnification obligations to the extent not satisfied out of amounts in the custody account discussed above.

The foregoing description of the Asset Purchase Agreement is only a summary and does not purport to be complete and is qualified by reference to the full text of the agreement filed by us as Exhibit 4(a)(2) in Item 19.

COMBINATION OF SCITEX VISION AND SCITEX VISION INTERNATIONAL

On December 22, 2002, we entered into a Share Exchange Agreement with Scitex Vision Ltd. and Aprion Digital Ltd. For a discussion of this agreement, see Item 7B – Related Party Transaction under the caption “Combination of Scitex Vision and Scitex Vision International.”

SALE OF CREO SHARES

On November 20, 2001, we entered into an agreement with Dundee Securities Corporation, or Dundee, an affiliate of Dundee Bancorp Inc., whereby Dundee agreed to act as our agent in a private sale of up to 7.0 million common shares of Creo held by us in consideration of up to a 4% commission out of the gross proceeds of such sale. On November 29, 2001, we completed the sale, through the agent, of the entire 7.0 million shares to various Canadian institutional investors for approximately \$77.7 million, less approximately \$1.6 million, representing commissions and expenses paid to Dundee. We made representations and warranties in the agreement for the benefit of Dundee, which survive for a period of two years following the closing of the transaction. In addition, we agreed to indemnify Dundee and its representatives against all damages arising from our breach of the representations and warranties.

On June 5, 2003, we entered into an agreement with Raymond James Ltd. and Dundee, whereby Dundee and Raymond James agreed to act as our agents in a private sale of 3.0 million common shares of Creo held by us in consideration of a 1.75% commission out of the gross proceeds of such sale. On June 12, 2003, we completed the sale, through the agents, of the entire 3.0 million shares to various financial institutions in Canada for approximately \$24 million, less approximately \$0.45 million, representing commissions and expenses paid to the agents. We made representations and warranties in the Agreement for the benefit of the agents, which survive for a period of two years following the closing of the transaction. In addition, we agreed to indemnify the agents and their representatives against all damages arising from our breach of the representations and warranties.

On August 11, 2003, we entered into an Agreement with Raymond James and Dundee, whereby Dundee and Raymond James agreed to act as our agents in a private sale of the remainder of our Creo shares - 3.25 million common shares of Creo held by us - in consideration of a 1.75% commission out of the gross proceeds of such sale. On August 11, 2003, we completed the sale, through the agents, of the entire 3.25 million shares to various financial institutions in Canada for approximately \$31 million, less approximately \$0.5 million, representing commissions and expenses paid to the agents. We made representations and warranties in the Agreement for the benefit of the agents, which survive for a period of two years following the closing of the transaction. In addition, we agreed to indemnify the agents and their representatives against all damages arising from our breach of the representations and warranties.

The foregoing description of the November 2001 Agreement, the June 2003 Agreement and the August 2003 Agreement is only a summary and does not purport to be complete and is qualified by reference to the full text of the agreements filed by us as Exhibits in Item 19.

D. EXCHANGE CONTROLS

There are currently no Israeli currency control restrictions on payments of dividends or other distributions with respect to our ordinary shares or the proceeds from the sale of the shares, except for the obligation of Israeli residents to file reports with the Bank of Israel regarding certain transactions. However, legislation remains in effect pursuant to which currency controls can be imposed by administrative action at any time.

E. TAXATION

The following is a general summary only and should not be considered as income tax advice or relied upon for tax planning purposes. Holders of our ordinary shares should consult their own tax advisors as to the United States, Israeli or other tax consequences of the purchase, ownership and disposition of ordinary shares, including, in particular, the effect of any foreign, federal, state or local taxes.

U.S. TAX CONSIDERATIONS

Subject to the limitations described herein, the following discussion describes certain material U.S. federal income tax considerations applicable to a U.S. holder (as defined below) regarding the acquisition, ownership and disposition of our ordinary shares. A U.S. holder means a holder of our ordinary shares who is:

- an individual citizen or resident of the United States;
- a corporation (or another entity taxable as a corporation for U.S. federal income tax purposes) created or organized in the United States or under the laws of the United States or any political subdivision thereof;
- an estate, the income of which is subject to U.S. federal income tax regardless of its source; or
- in general, a trust, if a U.S. court is able to exercise primary supervision over the administration of the trust and one or more United States persons have the authority to control all substantial decisions of the trust.

Unless otherwise specifically indicated, this discussion does not consider the United States tax consequences to a person that is not a U.S. holder (a “non-U.S. holder”) and considers only U.S. holders that will own our ordinary shares as capital assets. This discussion is based on current provisions of the Internal Revenue Code of 1986, as amended, referred to as the Code, current and proposed Treasury regulations promulgated under the Code administrative pronouncements and judicial decisions, all as in effect today and all of which are subject to change, possibly with a retroactive effect, which change could materially affect the U.S. federal income tax considerations described herein. This discussion does not address all aspects of U.S. federal income taxation that may be relevant to any particular U.S. holder based on the U.S. holder’s individual circumstances. In particular, this discussion does not address the potential application of the alternative minimum tax or the U.S. federal income tax consequences to U.S. holders that are subject to special treatment, including, without limitation, U.S. holders who:

- are broker-dealers or insurance companies;
- are tax-exempt organizations or retirement plans;
- are financial institutions or financial services entities;
- hold ordinary shares as part of a straddle, hedge or conversion transaction with other investments;
- have acquired their shares upon the exercise of employee stock options or otherwise as compensation;
- hold their shares through partnerships or other pass-through entities;
- own directly, indirectly or by attribution at least 10% of our voting power; and
- have a functional currency that is not the U.S. dollar.

In addition, this discussion does not address any aspect of state, local or non-U.S. tax laws or the possible application of United States federal gift or estate tax.

U.S. holders should review the summary below under “Israeli Taxation” for a discussion of Israeli tax consequences and certain other tax consequences pursuant to the income tax treaty between the governments of Israel and the U.S., which may be applicable to them.

U.S. holders should consult their own tax advisors with respect to the specific U.S. federal, state and local income tax consequences and any applicable non-U.S. tax consequences to them of purchasing, holding or disposing of the ordinary shares. U.S. holders are also urged to consult their own tax advisors concerning whether they will be eligible for benefits under the income tax treaty between the governments of Israel and the U.S.

U.S. HOLDERS OF ORDINARY SHARES

TAXATION OF DIVIDENDS PAID ON ORDINARY SHARES

Subject to the discussion below under “Tax Consequences if We are a Passive Foreign Investment Company,” a U.S. holder generally will be required to include in gross income as ordinary dividend income the amount of any distribution paid on our ordinary shares, including the amount of any Israeli taxes withheld in respect of such distribution, on the date the distribution is received, to the extent the distribution is paid out of our current or accumulated earnings and profits, as determined for U.S. federal income tax purposes. Distributions in excess of our earnings and profits will be applied against and will reduce the U.S. holder’s basis in our ordinary shares and, to the extent in excess of the basis, will be treated as gain from the sale or exchange of our ordinary shares. Distributions of our current or accumulated earnings and profits will not qualify for the dividends-received deduction applicable in certain cases to U.S. corporations.

Distributions of our current or accumulated earnings and profits paid in foreign currency to a U.S. holder, and the amount of any Israeli withholding tax thereon, will be included in the gross income of a U.S. holder in an amount equal to the U.S. dollar value of such foreign currency calculated by reference to the exchange rate in effect on the day the distribution is received by the U.S. holder, regardless of whether such foreign currency is converted into U.S. dollars. If a U.S. holder converts dividends paid in foreign currency into U.S. dollars on the day such dividends are received, the U.S. holder generally should not be required to recognize foreign currency gain or loss with respect to such conversion. If the foreign currency received in the distribution is not converted into U.S. dollars on the date of receipt, any foreign currency gain or loss recognized upon a subsequent conversion or other disposition of such foreign currency generally will be treated as U.S. source ordinary income or loss.

Subject to certain conditions and limitations, any Israeli withholding tax imposed with respect to a distribution of our current or accumulated earnings and profits generally will be eligible for credit against the recipient U.S. holder's U.S. federal income tax liability or, at the U.S. holder's election, may be claimed as a deduction against income in determining such tax liability. Distributions of our current or accumulated earnings and profits to U.S. holders will be treated as foreign source income and generally will be categorized as "passive income" or, in the case of certain holders, "financial services income" for purposes of computing the U.S. foreign tax credit allowable to U.S. holders. U.S. holders are advised that any Israeli tax paid under circumstances in which an exemption from such tax was available will not give rise to a deduction or credit for foreign taxes paid for U.S. federal income tax purposes. The calculation of allowable foreign tax credits and, in the case of a U.S. holder that elects to deduct foreign taxes, the availability of deductions for foreign taxes paid involve the application of complex rules that depend on a U.S. holder's particular circumstances. Accordingly, U.S. holders should consult their own tax advisors regarding their eligibility for foreign tax credits or deductions.

TAXATION OF THE DISPOSITION OF ORDINARY SHARES

Subject to the discussion below under "Tax Consequences if We are a Passive Foreign Investment Company," upon the sale, exchange or other disposition of our ordinary shares, a U.S. holder generally will recognize capital gain or loss in an amount equal to the difference between the U.S. dollar value of the amount realized on the sale, exchange or other disposition and the U.S. holder's adjusted tax basis, determined in U.S. dollars, in the ordinary shares. Capital gain from the sale, exchange or other disposition of ordinary shares held for one-year or less will be short-term capital gain or, if held for more than one-year, long-term capital gain. In the case of individual U.S. holders, long-term capital gains generally are subject to U.S. federal income tax at preferential rates (generally, a maximum rate of 15%) and short-term capital gains generally are subject to tax at ordinary income rates.

Gain or loss recognized by a U.S. holder on a sale, exchange or other disposition of our ordinary shares generally will be treated as U.S. source income or loss for U.S. foreign tax credit purposes. However, under certain circumstances and subject to the limitations specified in the income tax treaty between the governments of Israel and the U.S., such gain or loss recognized by a U.S. holder who qualifies as a resident of the U.S. (within the meaning of such treaty) and who is entitled to claim the benefits afforded to such resident under such treaty may be treated as foreign-source for U.S. foreign tax credit purposes. U.S. holders should consult their own tax advisors regarding the application of the U.S. foreign tax credit limitations to gain or loss recognized on the sale, exchange or other disposition of our ordinary shares.

The deductibility of a capital loss recognized on the sale, exchange or other disposition of ordinary shares is subject to significant limitations. U.S. holders should consult their own tax advisors in this regard.

A U.S. holder that receives foreign currency upon disposition of ordinary shares and converts the foreign currency into U.S. dollars after the settlement date or trade date (whichever date the U.S. holder is required to use to calculate the value of the proceeds of sale) generally will have foreign exchange gain or loss based on any appreciation or depreciation in the value of the foreign currency against the U.S. dollar, which will generally be U.S. source ordinary income or loss.

Tax Rates. The Jobs and Growth Tax Relief Reconciliation Act of 2003 (effective for tax years after December 31, 2002 through December 31, 2008), reduces the individual tax rates on both capital gains and certain dividend income ("qualified dividend income"). The top individual rate on adjusted capital gains is generally reduced from 20% to 15% (5% for taxpayers in the lower brackets) and on "qualified dividend income" from 38.6% to 15%. The reduced rates on long-term capital gains and "qualified dividend income" apply to (i) sales and exchanges (and payments received) on or after May 6, 2003 and (ii) "qualified dividend income" received after December 31, 2002, respectively.

Qualified dividend income generally includes dividends paid by non-U.S. corporations if, among other things, certain minimum holding periods are met and either (i) the shares with respect to which the dividend has been paid are readily tradable on an established securities market in the U.S. or (ii) the non-U.S. corporation paying such a dividend is eligible for the benefits of a comprehensive U.S. income tax treaty (such as the income tax treaty between the governments of Israel and the U.S.) which provides for the exchange of information. We currently believe that if we were to pay any dividends with respect to our ordinary shares, the dividends would constitute qualified dividend income for U.S. federal income tax purposes; provided, however, that we are not treated as a “passive foreign investment company” for U.S. federal income tax purposes (see discussion below under “Tax Consequences if We are a Passive Foreign Investment Company”). The top U.S. federal income tax rate applicable to income received by U.S. holders who are corporations for U.S. federal income tax purposes is 35%. U.S. holders should consult their own tax advisor regarding the specific U.S. tax rates applicable to any distribution made by us with respect to our ordinary shares or gain realized on the sale, exchange or other disposition of our ordinary shares, based on their particular circumstances.

TAX CONSEQUENCES IF WE ARE A PASSIVE FOREIGN INVESTMENT COMPANY

We will be a passive foreign investment company, or PFIC, if 75% or more of our gross income in a taxable year, including the pro rata share of the gross income of any company, U.S. or foreign, in which we are considered to own, directly or indirectly, 25% or more of the shares by value, is passive income. Alternatively, we will be considered to be a PFIC if at least 50% of our assets in a taxable year, averaged over the year and ordinarily determined based on fair market value and including the pro rata share of the assets of any company in which we are considered to own, directly or indirectly, 25% or more of the shares by value, are held for the production of, or produce, passive income.

If we were a PFIC, and a U.S. holder did not make an election to treat us as a qualified electing fund (a “QEF”) as described below, excess distributions by us to a U.S. holder would be taxed in a special way. Excess distributions are amounts received by a U.S. holder on shares in a PFIC in any taxable year that exceed 125% of the average distributions received by the U.S. holder from the PFIC in the shorter of:

- the three previous taxable years; or
- the U.S. holder’s holding period for ordinary shares before the present taxable year.

Excess distributions must be allocated ratably to each day that a U.S. holder has held shares in a PFIC. A U.S. holder would then be required to include amounts allocated to the current taxable year in its gross income as ordinary income for that year. Further, a U.S. holder would be required to pay tax on amounts allocated to each prior taxable year at the highest rate in effect for that year on ordinary income and the tax would be subject to an interest charge at the rate applicable to deficiencies for income tax.

The entire amount of gain that is realized by a U.S. holder upon the sale or other disposition of our ordinary shares will also be treated as an excess distribution and will be subject to tax as described above.

A U.S. holder’s tax basis in our ordinary shares that were inherited from a deceased person who was a U.S. holder would not receive a step-up to fair market value as of the date of the deceased’s death but would instead be equal to the deceased’s basis, if lower.

The special PFIC rules described above will not apply to a U.S. holder if the U.S. holder makes an election to treat us as a QEF in the first taxable year in which the U.S. holder owns ordinary shares or in which we are a PFIC, whichever is later, and if we comply with specified reporting requirements. Instead, a shareholder of a QEF is required for each taxable year in which we are a PFIC to include in income a pro rata share of the ordinary earnings of the QEF as ordinary income and a pro rata share of the net capital gain of the QEF as long-term capital gain, subject to a separate election to defer payment of taxes. If deferred, the taxes will be subject to an interest charge. We will supply U.S. holders with the information needed to report income and gain under a QEF election if we are classified as a PFIC.

The QEF election is made on a shareholder-by-shareholder basis. Once made, the election applies to all subsequent taxable years of the U.S. holder in which it holds our ordinary shares and for which we are a PFIC and can be revoked only with the consent of the Internal Revenue Service, or IRS. A shareholder makes a QEF election by attaching a completed IRS Form 8621, including the required election statement and the PFIC annual information statement, to a timely filed U.S. federal income tax return for the year of the election. The election statement also must be filed with the IRS Service Center in Philadelphia. In addition, an electing U.S. holder must act each year to maintain a QEF election by attaching a Form 8621 to the U.S. holder's timely filed tax return and comply with any other requirements as specified by the IRS.

A U.S. holder of PFIC shares which are publicly traded could elect to mark the stock to market annually, recognizing as ordinary income or loss each year an amount equal to the difference as of the close of the taxable year between the fair market value of the PFIC shares and the U.S. holder's adjusted tax basis in the PFIC shares. Losses would be allowed only to the extent of net mark-to-market gain previously included by the U.S. holder under the election for prior taxable years. If the mark-to-market election were made, then the rules presented above would not apply for periods covered by the election.

If a QEF election or mark-to-market election is not made for the first taxable year in which the U.S. holder holds our ordinary shares or in which we are a PFIC, whichever is later, then special rules will apply and U.S. holders should consult their tax advisors regarding the application of those rules.

Based on the opinion of our tax consultants, we do not believe we were a PFIC in 2003. However, there can be no assurance that we will not become a PFIC in 2004 or in subsequent years. The tests for determining PFIC status are applied annually and it is difficult to make accurate predictions of future income and assets, which are relevant to this determination. Accordingly, there can be no assurance that we will not become a PFIC in 2004 or at a later stage. U.S. holders who hold ordinary shares during a period when we are a PFIC will be subject to these rules, even if we cease to be a PFIC, subject to specified exceptions for U.S. holders who made a QEF election.

U.S. holders are urged to consult their tax advisors about the PFIC rules, including eligibility for and the manner and advisability of making, the QEF elections or the mark-to-market election.

NON-U.S. HOLDERS OF ORDINARY SHARES

Except as described in "Information Reporting and Backup Withholding" below, a non-U.S. holder of ordinary shares generally will not be subject to U.S. federal income or withholding tax on the payment of dividends on, and the proceeds from the disposition of, ordinary shares, unless:

- the item is effectively connected with the conduct by the non-U.S. holder of a trade or business in the United States;
- in the case of a resident of a country which has a treaty with the United States, the item is attributable to a permanent establishment;
- in the case of an individual, the item is attributable to a fixed place of business in the United States;
- the non-U.S. holder is an individual who holds the ordinary shares as a capital asset and is present in the United States for 183 days or more in the taxable year of the disposition and does not qualify for an exemption; or

- the non-U.S. holder is subject to tax under the provisions of U.S. tax law applicable to U.S. expatriates.

INFORMATION REPORTING AND BACKUP WITHHOLDING

Dividend payments with respect to ordinary shares and proceeds from the sale or other disposition of ordinary shares may be subject to information reporting to the IRS and possible U.S. backup withholding at a current rate of 28%. Backup withholding will not apply, however, to a holder who furnishes a correct taxpayer identification number or certificate of foreign status and makes any other required certification or who is otherwise exempt from backup withholding. U.S. persons who are required to establish their exempt status generally must provide IRS Form W-9 (Request for Taxpayer Identification Number and Certification). Non-U.S. holders generally will not be subject to U.S. information reporting or backup withholding. However, such holders may be required to provide certification of non-U.S. status (generally on IRS Form W-8BEN) in connection with payments received in the U.S. or through certain U.S.-related financial intermediaries.

Backup withholding is not an additional tax. Amounts withheld as backup withholding may be credited against a holder's U.S. federal income tax liability, and a holder may obtain a refund of any excess amounts withheld by filing the appropriate claim for refund with the IRS and furnishing any required information.

ISRAELI TAXATION

The following summary describes the current tax structure applicable to companies incorporated in Israel, with special reference to its effect on us. It also discusses Israeli tax consequences material to persons purchasing our ordinary shares. To the extent that the summary is based on new tax legislation yet to be judicially or administratively interpreted, we cannot be sure that the views expressed will accord with any future interpretation by the Israeli tax authorities or courts. The summary is not intended, and should not be construed, as legal or professional advice and does not exhaust all possible tax considerations. Accordingly, you should consult your tax advisor as to the particular tax consequences of an investment in our ordinary shares.

TAX REFORM

On January 1, 2003, the Law for Amendment of the Income Tax Ordinance (Amendment No. 132), 5762-2002, known as the tax reform, came into effect.

The tax reform, aimed at broadening the categories of taxable income and reducing the tax rates imposed on employment income, introduced, among other things, the following provisions:

- Reduction of the tax rate levied on capital gains (other than gains deriving from the sale of listed securities) derived after January 1, 2003, to a general rate of 25% for both individuals and corporations. Regarding assets acquired prior to January 1, 2003, the reduced tax rate will apply to a proportionate part of the gain, in accordance with the holding periods of the asset, before or after January 1, 2003, on a linear basis;
- Imposition of Israeli tax on all income of Israeli residents, individuals and corporations, regardless of the territorial source of income, including income derived from passive sources such as interest, dividends and royalties;
- Introduction of controlled foreign corporation (CFC) rules into the Israeli tax structure. Generally, under such rules, an Israeli resident who holds, directly or indirectly, 10% or more of the rights in a foreign corporation whose shares are not publicly traded (or which has offered less than 30% of its shares or any rights to its shares to the public), in which more than 50% of the rights are held directly or indirectly by Israeli residents, and a majority of whose income in a tax year is considered passive income, will be liable for tax on the portion of such income attributed to his holdings in such corporation, as if such income were distributed to him as a dividend;

- Imposition of capital gains tax on capital gains realized as of January 1, 2003 by individuals who are Israeli residents, from the sale of shares of publicly traded companies on the Tel Aviv Stock Exchange, or TASE, and from the sale of shares of publicly traded Israeli companies on certain other stock exchanges (such gain was previously exempt from capital gains tax in Israel in certain cases). For information with respect to the applicability of Israeli capital gains taxes on the sale of ordinary shares, see “*Capital Gains Tax*” below;
- Effectuation of a new regime for the taxation of shares and options issued to employees, officers and directors; and
- Introduction of tax at a rate of 25% on dividends paid by one Israeli company to another (which are generally not subject to tax), if the source of such dividends is income that was derived outside of Israel.

GENERAL CORPORATE TAX STRUCTURE

Generally, Israeli companies are subject to tax at the rate of 36% of taxable income (and are subject to Capital Gains Tax at a rate of 25% for capital gains, other than gains deriving from the sale of listed securities, derived after January 1, 2003). However, the effective tax rate payable by a company that derives income from an approved enterprise (as defined below) may be considerably less, as further discussed below.

On June 2, 2004, the Israeli government introduced a bill to the Israeli parliament proposing, among others, changes to the corporate tax rate. The bill proposes to reduce the corporate tax rate to 35% for the 2004 tax year, 34% for the 2005 tax year, 32% for the 2006 tax year and 30% for the 2007 tax year and thereafter. In order to enact the bill as law, the bill must be approved by the Israeli parliament and published. The bill might be modified prior to enactment or might not be enacted at all.

TAX BENEFITS UNDER THE LAW FOR THE ENCOURAGEMENT OF CAPITAL INVESTMENTS, 1959

The Law for the Encouragement of Capital Investments, 1959, as amended, or the Investment Law, provides that upon application to the Investment Center of the Israeli Ministry of Industry, Trade and Labor, a proposed capital investment in eligible facilities may be designated as an “Approved Enterprise.” The applicable law regarding Approved Enterprise programs is scheduled to expire on June 30, 2004. Accordingly, requests for new programs or expansions that are not approved on or before June 30, 2004 will not confer any tax benefits, unless the term of the law will be extended. Each certificate of approval for an Approved Enterprise relates to a specific investment program delineated both by its financial scope, including its capital sources, and by its physical characteristics, such as the equipment to be purchased and utilized pursuant to the program. The tax benefits derived from any such certificate of approval relate only to taxable income derived from the specific Approved Enterprise. If a company has more than one approval or only a portion of its capital investments are approved, its effective tax rate is the result of a weighted combination of the applicable rates. The tax benefits under the law are not generally available with respect to income derived from products manufactured outside of Israel.

Taxable income of a company derived from an Approved Enterprise (including income generated by a company from the grant of a usage right with respect to know-how developed by the Approved Enterprise, income generated from royalties and income derived from a service which is auxiliary to such usage right or royalties, provided that such income is generated within the Approved Enterprise’s ordinary course of business) is subject to company tax at the maximum rate of 25%, rather than the usual rate of 36%, for the “Benefit Period”. The Benefit Period is seven years (and under certain circumstances, as further detailed below, ten years), commencing with the year in which the Approved Enterprise first generates taxable income, and is limited to 12 years from commencement of production or 14 years from the date of approval, whichever is earlier.

A company that has an Approved Enterprise program is eligible for further tax benefits if it qualifies as a “foreign investors’ company”. A “foreign investors’ company” is a company that more than 25% of its shares of capital stock and combined share and loan capital is owned by non-Israeli residents. A company that qualifies as a foreign investors’ company and has an Approved Enterprise program is eligible for tax benefits for a ten-year benefit period and to a reduced tax rate of 10% to 20% depending on the level of foreign investment in each year.

Under an amendment to the Investments Law that was made within the framework of the tax reform (described above), it was clarified that tax benefits under the Investments Law shall also apply to income generated by a company from the grant of a usage right with respect to know-how developed by the Approved Enterprise, income generated from royalties, and income derived from a service which is auxiliary to such usage right or royalties, provided that such income is generated within the Approved Enterprise’s ordinary course of business.

A company owning an Approved Enterprise may elect to forego certain government grants extended to Approved Enterprises in return for an alternative package of benefits. Under the alternative package, the company’s undistributed income derived from an Approved Enterprise will be exempt from tax for a period of between two and ten years from the first year of taxable income, depending on the geographic location of the Approved Enterprise within Israel, and the company will be eligible for the tax benefits under the law for the remainder of the Benefit Period.

The Investment Center bases its decision of whether to approve or reject a company’s application for designation as an Approved Enterprise, among other things, on criteria set forth in the law and related regulations, the then prevailing policy of the Investment Center and the specific objectives and financial criteria of the applicant. Accordingly, a company cannot be certain in advance whether its application will be approved. In addition, the benefits available to an Approved Enterprise are conditional upon compliance with the conditions stipulated in the law and related regulations and the criteria set forth in the specific certificate of approval. In the event that a company violates these conditions, in whole or in part, it may be required to refund the amount of tax benefits, in whole or in part, plus an amount linked to the Israeli consumer price index and interest.

A major portion of our production facilities have been granted the status of Approved Enterprises. Under the Investments Law, income arising from our Approved Enterprises facilities is tax-free under the alternative package of benefits described above for a period of two years beginning with the first year in which the company generated taxable income, and thereafter, entitled to reduced tax rates based on the level of foreign ownership for specified periods. We have derived, and expect to continue to derive, a substantial portion of our income from our Approved Enterprises facilities. Subject to compliance with applicable requirements, the benefits for most of our production facilities in Israel will continue until termination in 2009. *See above in Item 5B under the caption “Tax Audits” regarding a dispute with the Israeli tax authority in this respect.*

All dividends are considered to be attributable to the entire enterprise and their effective tax rate is the result of a weighted combination of the applicable tax rates. We currently intend to reinvest the amount of our income and not to distribute such income as a dividend. In the event that we do pay a cash dividend from income that is derived from our Approved Enterprises pursuant to the alternative package of benefits, which income would normally be tax-exempt, we would be required to pay tax on the amount intended to be distributed as dividends at the rate which would have been applicable had we not elected the alternative package of benefits, which rate is ordinarily up to 25%, and to withhold at source on behalf of the dividend recipient an additional 15% of the amount distributed as dividends.

The law also provides that an Approved Enterprise is entitled to accelerated depreciation on its property and equipment that are included in an approved investment program.

TAX BENEFITS FOR RESEARCH AND DEVELOPMENT

Israeli tax law allows, under specified circumstances, a tax deduction for expenditures in the year incurred, including capital expenditures, in scientific research and development projects, if the expenditures are approved by the relevant Israeli government ministry and the research and development is for the promotion of the company and carried out by or on behalf of the company seeking such deduction. However, the amount of such deductible expenses must be reduced by the sum of any funds received through government grants for the finance of such scientific research and development projects. Expenditures not so approved are deductible over a three-year period.

TAX BENEFITS UNDER THE LAW FOR THE ENCOURAGEMENT OF INDUSTRY (TAXES), 1969

According to the Law for the Encouragement of Industry (Taxes), 1969, an “Industrial Company” is a company located in Israel, at least 90% of the income of which, in any tax year, exclusive of income from government loans, capital gains, interest and dividends, is derived from an “Industrial Enterprise” owned by it. An “Industrial Enterprise” is defined as an enterprise owned by an industrial company whose major activity in a given tax year is industrial production activity. Although Scitex Vision believes that it currently qualifies as an Industrial Company within the definition of the Law for the Encouragement of Industry (Taxes), 1969, it is currently in dispute with the Israeli tax authority, as discussed in Item 5B under the caption “Tax Audits.”

Under the law, Industrial Companies are entitled to preferred corporate tax benefits, among others, such as:

- deduction of purchases of know-how and patents over an eight-year period for tax purposes;
- deduction over a three-year period of expenses involved with the issuance and listing of shares on a stock exchange;
- the right to elect, under certain conditions, to file a consolidated tax return with related Israeli Industrial Companies that satisfy conditions set forth in the law; and
- accelerated depreciation rates on equipment and buildings.

Eligibility for the benefits under the law is not subject to receipt of prior approval from any governmental authority. However, the Israeli tax authorities may determine that Scitex Vision does not qualify as an Industrial Company (see above in Item 5B under the caption “Tax Audits”). In addition, it might not continue to qualify as an Industrial Company in the future. As a result of either of the foregoing, the benefits described above might not be available to Scitex Vision in the future.

SPECIAL PROVISIONS RELATING TO TAXATION UNDER INFLATIONARY CONDITIONS

The Income Tax Law (Inflationary Adjustments), 1985 represents an attempt to overcome the problems presented to a traditional tax system by an economy undergoing inflation. The law is highly complex. Its features that are material to us can be described as follows:

- A special tax adjustment for the preservation of equity whereby certain corporate assets are classified broadly into fixed (inflation immune) assets and non-fixed (soft) assets. Where a company’s equity, as defined in the law, exceeds the depreciated cost of its fixed assets, as defined in the law, the company may take a deduction from taxable income that reflects the effect of multiplication of the annual rate of inflation on such excess, up to a ceiling of 70% of taxable income in any single tax year, with the unused portion carried forward, linked to the increase in the consumer price index. If the depreciated cost of fixed assets exceeds a company’s equity, then the excess multiplied by the annual rate of inflation is added to taxable income;

- Subject to certain limitations set forth in the law, depreciation deductions on fixed assets and losses carried forward are adjusted for inflation based on the increase of the Israeli consumer price index; and
- Taxable gains on certain listed securities, which are taxed at a reduced tax rate with respect to individuals following the tax reform (and which were previously exempt from tax), are taxable at the company's tax rate in certain circumstances.

CAPITAL GAINS TAX

Israeli law generally imposes on residents and non-residents of Israel a tax on the sale of any capital assets by residents of Israel, as defined for Israeli tax purposes, and on the sale of assets in Israel, including shares in Israeli companies (and our ordinary shares), by both residents and non-residents of Israel, unless a specific exemption is available or unless a tax treaty between Israel and the shareholder's country of residence provides otherwise. The law distinguishes between the inflationary surplus and the real gain. The inflationary surplus is a portion of the total capital gain which is equivalent to the increase of the relevant asset's purchase price that is attributable to the increase in the Israeli consumer price index or, in certain circumstances, a foreign currency exchange rate, between the date of purchase and the date of sale. The real gain is the excess of the total capital gain over the inflationary surplus.

Pursuant to the tax reform, generally, capital gains tax is imposed on Israeli residents at a rate of 15% on real gains derived on or after January 1, 2003, from the sale of shares in (i) companies publicly traded on the TASE; or (ii) Israeli companies publicly traded on Nasdaq, or on a recognized stock exchange in a country that has a treaty for the prevention of double taxation with Israel; or (iii) companies dually traded on both the TASE and Nasdaq, such as Scitex, or on a recognized stock exchange or a regulated market outside of Israel. This tax rate is contingent upon the shareholder not claiming a deduction for financing expenses, and does not apply to: (i) the sale of shares to a relative (as defined in the Tax Reform); (ii) the sale of shares by dealers in securities; (iii) the sale of shares by shareholders that report in accordance with the Inflationary Adjustment Law; or (iv) the sale of shares by shareholders who acquired their shares prior to an initial public offering (that are subject to a different tax arrangement). The tax basis of shares acquired prior to January 1, 2003 will be determined in accordance with the average closing share price in the three trading days preceding January 1, 2003. However, a request may be made to the tax authorities to consider the actual adjusted cost of the shares as the tax basis if it is higher than such average price. In December 2003, regulations promulgated pursuant to the Tax Reform were amended so that, in certain circumstances, capital gains derived from the sale and subsequent (same day) repurchase of shares traded on the TASE or from shares of Israeli companies publicly traded on a recognized stock exchange or regulated market in a country that has a treaty for the prevention of double taxation with Israel, may be taxed at a rate equal to the withholding tax rate applicable to revenues derived from such sale. In accordance with an announcement published by the Israeli Income Tax Commission, the withholding tax rate applicable to the sale of such shares until the end of 2003 tax year, which was equal at such time to 1% of the revenues generated in their sale, was determined as the final tax rate applicable to such sale. The amended regulations also determined that the day of such sale and repurchase shall be considered the new date of purchase of such shares. The foregoing is not applicable to: (i) dealers in securities; (ii) shareholders that report in accordance with the Inflationary Adjustments Law; (iii) shareholders who acquired their shares prior to an initial public offering; (iv) in some cases, shareholders that received their shares within the framework of an employer-employee relationship; or (v) shareholders claiming a deduction for financing expenses in connection with such shares. The regulations further provide that with respect to shares of Israeli companies traded on a stock exchange outside of Israel, the market price determined at the close of the trading day preceding the day of the sale and repurchase of such shares, will constitute the new tax basis for any future sale of such shares.

Non-Israeli residents are exempt from Israeli capital gains tax on any gains derived from the sale of shares publicly traded on the TASE, provided such gains do not derive from a permanent establishment of such shareholders in Israel, and are exempt from Israeli capital gains tax on any gains derived from the sale of shares of Israeli companies publicly traded on a recognized stock exchange outside of Israel, provided, however, that such capital gains are not derived from a permanent establishment in Israel and that such shareholders did not acquire their shares prior to an initial public offering. In addition, non-Israeli companies will not be entitled to the exemption with respect to capital gains derived from the sale of shares of Israeli companies traded on the TASE if an Israeli resident (i) has a controlling interest of 25% or more in such non-Israeli company, or (ii) is the beneficiary or is entitled to 25% or more of the revenues or profits of such non-Israeli company, whether directly or indirectly.

In some instances, where our shareholders may be liable to Israeli tax on the sale of our ordinary shares, the payment of the consideration may be subject to the withholding of Israeli tax at the source.

U.S.-Israel Income Tax Treaty

Pursuant to an income tax treaty between the governments of the United States and Israel, the sale of shares by a person who qualifies as a resident of the United States within the meaning of the treaty and who is entitled to claim the benefits afforded to a resident by the treaty will not be subject to Israeli capital gains tax. This exemption does not apply if (i) the person holds, directly or indirectly, shares representing 10% or more of our voting power during any part of the 12-month period preceding the applicable sale, or (ii) the capital gains from such sale can be allocated to a permanent establishment in Israel. However, under the circumstances and subject to the limitations specified in the Israeli-U.S. treaty, the person would be permitted to claim a credit for the capital gains tax paid in Israel against the U.S. income tax imposed with respect to the applicable sale, subject to the limitations in U.S. laws applicable to foreign tax credits.

TAXATION OF DIVIDENDS

Non-residents of Israel are subject to income tax on income accrued or derived from sources in Israel. These sources of income include passive income such as dividends, royalties and interest, as well as non-passive income from services rendered in Israel. On distributions of dividends other than bonus shares, or stock dividends, we would be required to withhold income tax at the rate of 25%. If the income out of which the dividend is being paid is attributable to an Approved Enterprise under the Law for the Encouragement of Capital Investments, 1959, the rate is 15%. A different rate may be provided in a treaty between Israel and the shareholder's country of residence. Under the U.S.-Israel tax treaty, if the income out of which the dividend is being paid is not attributable to an Approved Enterprise, then income tax with respect to shareholders that are U.S. corporations holding at least 10% of our voting power in the twelve-month period preceding the distribution of such dividends, is required to be withheld at the rate of 12.5%.

Under an amendment to the Inflationary Adjustments Law, non-Israeli companies may be subject to Israeli taxes on the sale of securities of an Israeli company, subject to the provisions of any applicable taxation treaty or unless a specific exemption is available.

For information with respect to the applicability of Israeli capital gains taxes on the sale of ordinary shares by United States residents, see "Capital Gains Tax" above.

F. DIVIDENDS AND PAYING AGENTS.

Not Applicable.

G. STATEMENT BY EXPERTS.

Not Applicable.

H. DOCUMENTS ON DISPLAY

We are subject to the informational requirements of the Securities Exchange Act of 1934, as amended, applicable to “foreign private issuers” and, in accordance therewith, are obligated to file reports, including annual reports on Form 20-F, and other information with the SEC relating to our business, financial condition and other matters. You may examine such reports, exhibits and other information filed by us with the SEC, without charge, at the public reference facilities maintained by the SEC at Room 1024, 450 Fifth Street, N.W., Washington, D.C., 20549. You may also receive copies of these materials by mail from the SEC’s Public Reference Branch at 450 Fifth Street, N.W., Washington, D.C., 20549, at prescribed rates. For more information on the public reference rooms, call the SEC at 1-800-SEC-0330. The SEC maintains an Internet website at <http://www.sec.gov> that contains reports, proxy statements, information statements and other material that are filed through the SEC’s Electronic Data Gathering, Analysis and Retrieval (“EDGAR”) system. We began filing through the EDGAR system on November 6, 2002.

As a foreign private issuer, we are exempt from the rules under the Exchange Act prescribing the furnishing and content of proxy statements, and our officers, directors and principal shareholders are exempt from the reporting and “short-swing” profit recovery provisions contained in Section 16 of the Exchange Act. In addition, we are not required under the Exchange Act to file periodic reports and financial statements with the SEC as frequently or as promptly as United States companies whose securities are registered under the Exchange Act.

I. SUBSIDIARY INFORMATION

Not Applicable.

ITEM 11. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

Our functional currency and that of most of our consolidated subsidiaries is the U.S. dollar. Accordingly, we have balance sheet exposure deriving from the gap between assets and liabilities in each currency other than the dollar. This exposure is limited, mainly for balances in European currencies and New Israeli Shekels, or NIS. We hedge certain assets or liabilities denominated in currencies other than the dollar, by balancing debt with receivables in the same currency.

We do not actively hedge interest rate exposure or engage in other transactions intended to manage risks relating to interest rate fluctuations. The interest income on our cash equivalents and short-term investments is sensitive to changes in the general level of market interest rates. We mitigate the impact of fluctuations in interest rates primarily through diversification and by limiting the average duration of our interest-bearing investment portfolio. The interest rate for the credit lines we use varies according to changes in the dollar LIBOR rate as well as the Euro LIBOR rate.

PRESENTATION OF EXCHANGE RATE AND INTEREST RATE RISK (POSITION AS OF DECEMBER 31, 2003)

The table below details the balance sheet exposure, by currency, as of December 31, 2003 (at fair value). All data in the table has been translated for convenience into the dollar equivalent (in millions). Explanatory notes are provided below the table.

Balance sheet exposure by currency as of December 31, 2003		
European Currencies	NIS	Other Currencies
\$ 16.8	\$ (7.2)	\$ 0.8

- The amounts shown in the table represent monetary assets less liabilities.
- The table does not include data with respect to balance sheet exposure for certain equity investments in which the functional currency was the local currency, since those balances do not create any such exposure.
- “European Currencies” include all European currency exposure.

(See “Item 5. Operating And Financial Review And Prospects - Impact of Inflation and Exchange Rates” and Note 13 to our consolidated financial statements included in this Annual Report.)

For information about forward-exchange contracts please see Note 13a to our Consolidated Financial Statement included in this Annual Report.

ITEM 12. DESCRIPTION OF SECURITIES OTHER THAN EQUITY SECURITIES

Not applicable.

PART II

ITEM 13. DEFAULTS, DIVIDEND ARREARAGES AND DELINQUENCIES

Not applicable.

ITEM 14. MATERIAL MODIFICATIONS IN THE RIGHTS OF SECURITY HOLDERS AND USE OF PROCEEDS

In December 2003, our shareholders approved amendments to Article 69 of our Articles of Association, relating to the procedures governing notices, as described in Item 3 of our Notice and Proxy Statement for the Annual General Meeting of our shareholders held on December 31, 2003, included in our report on Form 6-K, filed with the SEC on April 1, 2004, which is incorporated herein by reference.

In April 2004, our shareholders approved additional amendments to our Articles of Association, as follows:

- Article 53 was amended, with respect to the source of funds available for payment of dividends; and
- Articles 7, 52, 56 and 57 were amended, with respect to the corporate approvals required for reduction of share capital and distribution of dividends, all as described in Items 2 and 4 of our Notice and Proxy Statement for the Extraordinary General Meeting of our shareholders held on April 25, 2005, included in our report on Form 6-K, filed with the SEC on April 1, 2004, which is incorporated herein by reference.

ITEM 15. CONTROLS AND PROCEDURES

Disclosure controls and procedures. Our chief executive officer, or CEO, and chief financial officer, or CFO, are responsible for establishing and maintaining our disclosure controls and procedures. These controls and procedures were designed to ensure that information required to be disclosed in the reports that we file under the Securities Exchange Act of 1934, as amended, is recorded, processed, summarized and reported within the time periods specified in the rules and forms of the SEC. We evaluated these disclosure controls and procedures under the supervision of our CEO and CFO as of December 31, 2003. Based on this evaluation, our CEO and CFO concluded that our disclosure controls and procedures are effective in timely alerting them to information required to be disclosed in our periodic reports to the SEC.

Internal control over financial reporting. There were no changes in the Company's internal control over financial reporting that occurred during the year ended December 31, 2003 that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

You should note that in the designing and evaluating the disclosure controls and procedures, we recognized that any controls and procedures, no matter how well designed and operated, can provide only reasonable assurance of achieving the desired control objectives. For example, we have investments in certain unconsolidated entities, on which we exercise only limited control, if at all, on management and operational aspects. Accordingly, our disclosure controls and procedures with respect to such entities are necessarily limited compared to those we maintain with respect to our consolidated subsidiaries.

ITEM 16A. AUDIT COMMITTEE FINANCIAL EXPERT

Our board of directors has determined that three of the four members of the audit committee are "audit committee financial experts" as defined in Item 16A of Form 20-F. Our "audit committee financial experts" are Mr. Asheri, Ms. Zochovitzky and Mr. Dogon.

ITEM 16B. CODE OF ETHICS

We have adopted a Code of Ethics and Business Conduct, which applies to all of our directors, executive officers and employees. A copy of our Code of Ethics and Business Conduct has been posted on our Internet website, <http://www.scitex.com>.

ITEM 16C. PRINCIPAL ACCOUNTANT FEES AND SERVICES

In the annual general meeting held in December 2003, our shareholders re-appointed Kesselman & Kesselman, a member of PricewaterhouseCoopers International Ltd. (PWC), to serve as our independent auditors for the fiscal year ending December 31, 2003. In the extraordinary general meeting held in April 2004, our shareholders re-appointed Kesselman & Kesselman to serve as our independent auditors until the next annual meeting.

PWC, including Kesselman & Kesselman, billed the following fees to us for professional services in each of the last two fiscal years:

	Year ended December 31,	
	(approximate \$ in millions)	
	2002	2003
Audit Fees ⁽¹⁾	\$ 0.37	\$ 0.60
Audit-Related Fees ⁽²⁾	--	--
Tax Fees ⁽³⁾	0.18	0.33
All Other Fees ⁽⁴⁾	0.03	0.03
Total Fees	\$ 0.58	\$ 0.96

- (1) "Audit Fees" are the aggregate fees billed for the audit of our annual financial statements, reviews of interim financial statements and attestation services that are normally provided in connection with statutory and regulatory filings or engagements.
- (2) "Audit-Related Fees" are the aggregate fees billed for assurance and related services that are reasonably related to the performance of the audit or review of our financial statements and are not reported under Audit Fees.
- (3) "Tax Fees" are the aggregate fees billed for professional services rendered for tax compliance, tax advice on actual or contemplated transactions and tax planning. Kesselman & Kesselman provided us with tax services such as PFIC evaluation and tax planning.
- (4) "All Other Fees" are the aggregate fees billed for professional services that are not reported under the captions "Audit Fees," "Audit-Related Fees" or "Tax Fees."

Our Audit Committee oversees our independent auditors. See also the description under the heading "Board Practices" in "Item 6. Directors, Senior Management and Employees."

Our Audit Committee's policy is to require committee approval of any audit or permitted non-audit services proposed to be provided by our independent auditors before engaging our independent auditors to provide such services. This policy is designed to assure that such engagements do not impair the independence of our auditors.

ITEM 16D. EXEMPTIONS FROM THE LISTING STANDARDS FOR AUDIT COMMITTEES.

Not applicable.

ITEM 16E. PURCHASES OF EQUITY SECURITIES BY THE ISSUER AND AFFILIATED PURCHASERS.

Not effective.

PART III

ITEM 17. FINANCIAL STATEMENTS

We have responded to Item 18 in lieu of this item.

ITEM 18. FINANCIAL STATEMENTS

Scitex is filing as part of this Annual Report:

- consolidated financial statements (and related Schedule II) of Scitex for the year ended December 31, 2003;
- consolidated financial statements of Jemtex for the year ended December 31, 2003;
- consolidated financial statements of Jemtex for the year ended December 31, 2002;
- a summary of selected financial data from the consolidated financial statements of Objet for the year ended December 31, 2003; and

- the consolidated financial statements of Creo Inc. for the fiscal year ended September 30, 2001 and 2002, which are incorporated by reference to Exhibit 10(a)(2) in Item 19 of this Annual Report.

	<u>Page</u>
<u>Index to the Financial Statements of the Registrant:</u>	
Report of Independent Auditors	F2
Consolidated Balance Sheets at December 31, 2003 and 2002	F3-F4
Consolidated Statements of Operations for the Three Years ended December 31, 2003	F5
Consolidated Statements of Changes in Shareholders' Equity for the Three Years ended December 31, 2003	F6
Consolidated Statements of Cash Flows for the Three Years ended December 31, 2003	F7-F8
Notes to Consolidated Financial Statements	F9-F47
<u>Index to the Financial Statements Schedules of the Registrant</u>	
Report of Independent Auditors on Financial Statement Schedule	S-1
Schedule II – Valuation and Qualifying Accounts	S-2
<u>Associated Companies</u>	
Report of Independent Auditors and consolidated financial statements of Jemtex for the year ended December 31, 2003	J-1-J-17
Consolidated financial statements of Jemtex for the year ended December 31, 2002	H-1-H-13
Report of Independent Auditors of Objet and selected financial data for the year ended December 31, 2003	O-1-O-2

ITEM 19. EXHIBITS

- 1.1 Memorandum of Association of the Registrant. (1)
- 1.2 Amended and Restated Articles of Association of the Registrant.
3. Voting Agreement dated December 1, 1980, by and among Discount Investment Corporation Ltd., PEC Israel Economic Corporation and Clal Electronics Industries Ltd. (2)
- 4(a)(1) Agreement dated November 20, 2001 between Dundee Securities Corporation and the Registrant. (3)
- 4(a)(2) Asset Purchase Agreement dated November 24, 2003, between Eastman Kodak Company, the Registrant, Scitex Digital Printing, Inc. and Scitex Development Corp.
- 4(a)(3) Agreement dated June 5, 2003 by and among Dundee Securities Corporation, Raymond James Ltd. and the Registrant.
- 4(a)(4) Agreement dated August 11, 2003 by and among Dundee Securities Corporation, Raymond James Ltd. and the Registrant.
- 4(c)(1) The Scitex Israel Key Employee Share Incentive Plan 1991. (1)
- 4(c)(2) The Scitex International Key Employee Stock Option Plan 1991 (as amended, 1995). (1)
- 4(c)(3) Form of the Letter of Indemnification provided to office holders. (4)

- 4(c)(4) The Scitex 2001 Stock Option Plan (as amended, 2003). (5)
 - 4(c)(5) The Scitex 2003 Share Option Plan. (6)
 - 4(d)(1) Services Agreement dated November 1, 2001, between Clal and the Registrant (as amended, 2004).
 - 4(d)(2) Share Exchange Agreement dated December 22, 2002, by and among the Registrant, Scitex Vision Ltd. and Aprion Digital Ltd. (7)
 - 4(d)(3) Services Agreement dated March 1, 2004, between Discount Investment Corporation Ltd. and the Registrant.
 - 8 List of Subsidiaries of the Registrant.
 - 10(a)(2) Year 2002 Annual Report to Shareholders of Creo Inc. for the fiscal year ended September 30, 2002, pages 28 through 42 (inclusive) of which are incorporated herein by reference. (8)
 - 10(a)(3) Comments by Independent Accountants of Creo Inc. for U.S. Readers on Canada – U.S. Reporting Differences, dated November 12, 2002. (9)
 - 12.1 Certification of CEO of the Registrant pursuant to Rule 13a-14(a) as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
 - 12.2 Certification of CFO of the Registrant pursuant to Rule 13a-14(a) as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
 - 13.1 Certification of CEO of the Registrant pursuant to Rule 13a-14(b), as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.
 - 13.2 Certification of CFO of the Registrant pursuant to Rule 13a-14(b), as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.
 - 14(a)(1) Consent of Kesselman & Kesselman, Independent Accountants of Registrant.
 - 14(a)(2) Consent of Ziv Haft, Independent Accountants of Jemtex InkJet Printing Ltd.
 - 14(a)(3) Consent of Independent Accountants of Objet Geometries Ltd.
 - 14(a)(4) Consent of KPMG LLP, Independent Accountants of Creo Inc.
-
- (1) Incorporated by reference to our Annual Report on Form 20-F for the fiscal year ended December 31, 2000, filed June 29, 2001.
 - (2) Incorporated by reference to Exhibit 10.h of our Registration Statement on Form F-1 filed May 26, 1983 (File No. 2-82743).
 - (3) Incorporated by reference to our Annual Report on Form 20-F for the fiscal year ended December 31, 2001, filed July 1, 2002.
 - (4) Incorporated by reference to Appendix B to our Proxy Statement of our Report on Form 6-K filed April 1, 2004.
 - (5) Incorporated by reference to Exhibit (d)(4) to our Tender Offer Statement on Schedule TO filed May 14, 2004.
 - (6) Incorporated by reference to Appendix B to our Proxy Statement of our Report on Form 6-K filed December 3, 2003.
 - (7) Incorporated by reference to our Annual Report on Form 20-F for the fiscal year ended December 31, 2002, filed June 19, 2003.
 - (8) Incorporated by reference to Exhibit 99.2 of Creo Inc.'s Annual Report on Form 40-F filed February 20, 2003 (incorporated from Creo's Form 6-K filed January 15, 2003).
 - (9) Incorporated by reference to Exhibit 99.3 of Creo Inc.'s Annual Report on Form 40-F filed February 20, 2003.

SIGNATURES

The Registrant hereby certifies that it meets all of the requirements for filing on Form 20-F and that it has duly caused and authorized the undersigned to sign this Annual Report on its behalf.

SCITEX CORPORATION LTD.
(Registrant)

By: /S/ Raanan Cohen

Raanan Cohen
President of the Company
& Chief Executive Officer

Date: June 30, 2004

SCITEX CORPORATION LTD.

2003 CONSOLIDATED FINANCIAL STATEMENTS

SCITEX CORPORATION LTD.

2003 CONSOLIDATED FINANCIAL STATEMENTS

TABLE OF CONTENTS

	Page
<u>REPORT OF INDEPENDENT AUDITORS</u>	F-2
CONSOLIDATED FINANCIAL STATEMENTS:	
<u>Balance sheets</u>	F-3-F-4
<u>Statements of operations</u>	F-5
<u>Statements of shareholders' equity</u>	F-6
<u>Statements of cash flows</u>	F-7-F-8
<u>Notes to financial statements</u>	F-9-F-47

The amounts are stated in U.S. dollars (\$).

Kesselman & Kesselman
Certified Public Accountants (Isr.)
Trade Tower, 25 Hamered Street
Tel Aviv 68125 Israel
P.O Box 452 Tel Aviv 61003
Telephone +972-3-7954555
Facsimile +972-3-7954556

REPORT OF INDEPENDENT AUDITORS

To the shareholders of
SCITEX CORPORATION LTD.

We have audited the consolidated balance sheets of Scitex Corporation Ltd. (the "Company") and its subsidiaries as of December 31, 2003 and 2002 and the related consolidated statements of operations, shareholders' equity and cash flows for each of the three years in the period ended December 31, 2003. These financial statements are the responsibility of the Company's Board of Directors and management. Our responsibility is to express an opinion on these financial statements based on our audits.

We did not audit the financial statements of certain associated companies, the Company's investment in which, as reflected in the balance sheets as of December 31, 2003 and 2002 is \$ 3,328,000 and \$ 2,544,000, respectively, and the Company's share in losses of which is \$ 5,637,000, \$ 2,379,000 and \$ 62,927,000 in 2003, 2002 and 2001, respectively. The financial statements of those companies were audited by other independent auditors, whose reports have been furnished to us, and our opinion, insofar as it relates to amounts included for those companies, is based on the reports of the other independent auditors.

We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States), and auditing standards generally accepted in Israel, including those prescribed by the Israeli Auditors (Mode of Performance) Regulations, 1973. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by the Company's Board of Directors and management, as well as evaluating the overall financial statement presentation. We believe that our audits and the reports of the other independent auditors provide a reasonable basis for our opinion.

In our opinion, based on our audits and the reports of the other independent auditors, the consolidated financial statements referred to above present fairly, in all material respects, the consolidated financial position of the Company and its subsidiaries as of December 31, 2003 and 2002 and the consolidated results of operations, shareholders' equity and cash flows for each of the three years in the period ended December 31, 2003, in conformity with accounting principles generally accepted in the United States.

As discussed in note 2i to the consolidated financial statements, effective January 1, 2002, the Company changed its method of accounting for goodwill to conform with FASB statement of Financial Accounting Standard No. 142 "Goodwill and Other intangible assets".

Tel-Aviv, Israel
March 1, 2004

/s/ Kesselman & Kesselman

Kesselman & Kesselman
Certified Public Accountants (Isr.)

SCITEX CORPORATION LTD.

CONSOLIDATED BALANCE SHEETS

	December 31	
	2003	2002
	U.S. dollars in thousands	
Assets		
CURRENT ASSETS:		
Cash and cash equivalents	52,861	17,814
Short-term investments	8,235	
Restricted deposit	18,262	20,203
Trade receivables	36,002	30,555
Other receivables	9,995	7,321
Inventories (note 14b)	22,575	20,060
Current assets of discontinued operation	161,602	135,269
T o t a l current assets	309,532	231,222
INVESTMENTS AND OTHER NON-CURRENT ASSETS:		
Associated companies	3,328	7,247
Other investments and non-current assets (note 5)	1,301	55,131
Funds in respect of employee rights upon retirement	2,040	1,183
Deferred income taxes	112	1,866
	6,781	65,427
PROPERTY, PLANT AND EQUIPMENT, net of accumulated depreciation and amortization (note 6)		
	9,204	6,074
GOODWILL (note 7)		
	5,472	2,171
OTHER INTANGIBLE ASSETS, net of accumulated amortization (note 8)	18,027	11,367
NON-CURRENT ASSETS OF DISCONTINUED OPERATION	48,897	53,295
	397,913	369,556

Ami Erel

) Chairman of the Board of Directors

Raanan Cohen

) Interim President & Chief Executive Officer

	December 31	
	2003	2002
	U.S. dollars in thousands	
Liabilities and shareholders' equity		
CURRENT LIABILITIES:		
Short-term bank credit and loans (note 14d)	45,351	31,888
Current maturities of long-term loans (note 14d)	2,602	5,248
Note payable issued to an investee company		18,523
Trade payables	14,505	14,834
Taxes on income, net of advances	29,517	26,086
Accrued and other liabilities (note 14c)	25,677	16,951
Current liabilities related to discontinued operation	31,935	21,388
T o t a l current liabilities	149,587	134,918
LONG-TERM LIABILITIES:		
Loans, net of current maturities: (note 14d)		
Banks	6,623	5,493
Other	3,623	
Liability for employee rights upon retirement (note 9)	3,022	1,607
Long-term liabilities related to discontinued operation	5,431	6,359
T o t a l long-term liabilities	18,699	13,459
CONVERTIBLE LONG-TERM LOANS FROM RELATED PARTIES (note 14d)		
	756	
COMMITMENTS AND CONTINGENT LIABILITIES (note 10)		
T o t a l liabilities	169,042	148,377
MINORITY INTEREST		
	4,173	
SHAREHOLDERS' EQUITY (note 11):		
Share capital - ordinary shares of NIS 0.12 par value (authorized - December 31, 2003 and 2002 - 48,000,000 shares; issued and outstanding - December 31, 2003 and 2002 - 43,467,388 shares)	6,205	6,205
Capital surplus	368,104	364,619
Accumulated other comprehensive income (loss)	(552)	801
Accumulated deficit	(144,852)	(146,239)
Treasury shares, at cost (December 31, 2003 and 2002 - 448,975 shares)	(4,207)	(4,207)
T o t a l shareholders' equity	224,698	221,179
	397,913	369,556

The accompanying notes are an integral part of the financial statements.

SCITEX CORPORATION LTD.

CONSOLIDATED STATEMENTS OF OPERATIONS

	Year ended December 31		
	2003	2002	2001
	U.S. dollars in thousands (except per share data)		
REVENUES:			
Sales	60,653	52,847	59,753
Services	5,638	5,098	4,174
Supplies	36,589	27,716	27,691
T o t a l revenues	102,880	85,661	91,618
COST OF REVENUES:			
Cost of sales	33,766	25,873	27,268
Cost of services	12,438	11,486	12,414
Cost of supplies	12,138	8,562	8,126
T o t a l cost of revenues	58,342	45,921	47,808
GROSS PROFIT	44,538	39,740	43,810
RESEARCH AND DEVELOPMENT COSTS - net (note 14f)	11,070	7,060	6,083
SELLING, GENERAL AND ADMINISTRATIVE EXPENSES (note 14g)	35,339	33,393	37,653
AMORTIZATION OF INTANGIBLE ASSETS (in 2001 - including goodwill)	5,871	2,944	8,460
WRITE-DOWN OF GOODWILL AND OTHER INTANGIBLE ASSETS	2,967		14,986
RESTRUCTURING CHARGES (note 14h)	1,590		500
OPERATING LOSS	(12,299)	(3,657)	(23,872)
FINANCIAL EXPENSES - net (note 14i)	(2,651)	(3,139)	(2,928)
WRITE-DOWN OF INVESTMENT IN AN ASSOCIATED COMPANY			(149,704)
OTHER INCOME (LOSS) - net (note 14j)	787	(26,270)	(13,034)
LOSS BEFORE TAXES ON INCOME	(14,163)	(33,066)	(189,538)
TAXES ON INCOME (note 12)	(2,402)	648	(2,957)
SHARE IN LOSSES OF ASSOCIATED COMPANIES	(5,637)	(4,106)	(67,507)
MINORITY INTERESTS IN LOSSES OF A SUBSIDIARY	3,546		
NET LOSS FROM CONTINUING OPERATIONS	(18,656)	(36,524)	(260,002)
NET INCOME FROM DISCONTINUED OPERATION	20,043	4,494	6,982
NET INCOME (LOSS)	1,387	(32,030)	(253,020)
EARNINGS (LOSS) PER SHARE ("EPS") - BASIC:			
Continuing operations	\$ (0.43)	\$ (0.84)	\$ (6.04)
Discontinued operation	\$ 0.46	\$ 0.10	\$ 0.16
	\$ 0.03	\$ (0.74)	\$ (5.88)
EARNINGS (LOSS) PER SHARE ("EPS") - DILUTED:			
Continuing operations	\$ (0.43)	\$ (0.84)	\$ (6.04)
Discontinued operation	\$ 0.46	\$ 0.10	\$ 0.16
	\$ 0.03	\$ (0.74)	\$ (5.88)

**WEIGHTED AVERAGE NUMBER OF SHARES
USED IN COMPUTATION OF EPS (in thousands):**

Basic

43,018

43,018

43,018

Diluted

43,018

43,018

43,018

The accompanying notes are an integral part of the financial statements.

SCITEX CORPORATION LTD.
CONSOLIDATED STATEMENTS OF CHANGES IN SHAREHOLDERS' EQUITY

	Share capital	Capital surplus	Accumulated other comprehensive Income (loss)	Retained earnings (accumulated deficit)	Treasury shares	Total shareholders' equity
	U.S. dollars in thousands					
BALANCE AT JANUARY 1, 2001	6,205	364,619	904	138,811	(4,207)	506,332
CHANGES DURING THE YEAR ENDED DECEMBER 31, 2001:						
Net loss				(253,020)		(253,020)
Other comprehensive income (loss), net, in respect of:						
Currency translation adjustments			(306)			(306)
Available-for-sale securities			7,342			7,342
Derivative instruments designated for cash flow hedge			(200)			(200)
Total comprehensive loss						(246,184)
Issuance of shares by a development-stage associated company			14			14
BALANCE AT DECEMBER 31, 2001	6,205	364,619	7,754	(114,209)	(4,207)	260,162
CHANGES DURING THE YEAR ENDED DECEMBER 31, 2002:						
Net loss				(32,030)		(32,030)
Other comprehensive income (loss), net, in respect of:						
Currency translation adjustments			189			189
Available-for-sale securities			(7,342)			(7,342)
Derivative instruments designated for cash flow hedge			200			200
Total comprehensive loss						(38,983)
BALANCE AT DECEMBER 31, 2002	6,205	364,619	801	(146,239)	(4,207)	221,179
CHANGES DURING THE YEAR ENDED DECEMBER 31, 2003:						
Net income				1,387		1,387
Other comprehensive loss, net, in respect of:						
Currency translation adjustments			(1,353)			(1,353)
Total comprehensive income						34
Share in beneficial conversion feature relating to convertible preferred shares issued by Scitex Vision. See note 3a		3,485				3,485
BALANCE AT DECEMBER 31, 2003	6,205	368,104	(552)	(144,852)	(4,207)	224,698

The accompanying notes are an integral part of the financial statements.

SCITEX CORPORATION LTD.

CONSOLIDATED STATEMENTS OF CASH FLOWS

	Year ended December 31		
	2003	2002	2001
	U.S. dollars in thousands		
CASH FLOWS FROM OPERATING ACTIVITIES:			
Net income (loss)	1,387	(32,030)	(253,020)
Net income from discontinued operation	(20,043)	(4,494)	(6,982)
Net loss from continuing operations	(18,656)	(36,524)	(260,002)
Adjustments to reconcile net loss from continuing operations to net cash provided by operating activities:			
Income and expenses not involving cash flows:			
Minority interests in losses of subsidiaries	(3,546)		
Share in losses of associated companies - net	5,637	4,106	67,506
Depreciation and amortization	9,406	5,194	10,663
Write-down of goodwill and other intangible assets	2,967		14,986
Restructuring charges	291		500
Loss (gain) on disposal of fixed assets	321	(16)	102
Gain from sale of interest in a subsidiary	(3,774)		
Share in beneficial conversion feature of convertible preferred shares issued by a subsidiary	3,485		
Loss from change in percentage of holding in an associated company			4,408
Gain from sale of available-for-sale securities	(2,823)		
Loss from sale of investments in an associated company			6,041
Write-off and write-down of investments in investee companies and available-for-sale securities	2,493	26,122	5,477
Write-down of investment in an associated company			149,704
Interest on long-term note payable	236	944	944
Interest on long-term loans - net	(603)		
Revaluation of long-term loan	(408)		
Interest on convertible long-term loans from related parties	20		
Deferred income taxes - net	1,754	(64)	(1,802)
Decrease (increase) in short-term investments	(8,235)		9,511
Changes in operating asset and liability items:			
Increase in accounts receivable	(6,496)	(5,244)	(1,356)
Decrease (increase) in inventories	112	1,937	(5,093)
Increase (decrease) in accounts payable and accruals	4,248	(1,394)	(46,783)
Other items - net	(8)	(254)	(248)
Net cash used in continuing operations	(13,579)	(5,193)	(45,442)
Net cash provided by discontinued operation	7,415	9,564	22,289
Net cash provided by (used in) operating activities	(6,164)	4,371	(23,153)
CASH FLOWS FROM INVESTING ACTIVITIES:			
Acquisition of assets and operations consolidated for the first time *	771	(2,181)	(2,860)
Purchase of fixed assets	(3,306)	(10,324)	(15,469)
Proceeds from sale of fixed assets		10	3,490
Proceeds from sale of investment in an associated company			76,071
Proceeds from sale of other investment	53,886		
Purchase of intangible assets	(820)	(1,012)	(5,123)
Restricted deposits	3,427	(20,203)	
Investment in associated companies and other investments	(3,061)	(3,466)	(6,138)
Net cash provided by (used in) investing activities	50,897	(37,176)	49,971
Subtotal - forward	44,733	(32,805)	26,818



SCITEX CORPORATION LTD.**CONSOLIDATED STATEMENTS OF CASH FLOWS**

	Year ended December 31		
	2003	2002	2001
	U.S. dollars in thousands		
Subtotal - brought forward	44,733	(32,805)	26,818
CASH FLOWS FROM FINANCING ACTIVITIES:			
Increase in long-term liabilities	612	8,000	5,500
Receipt of Convertible long-term loans from related parties	933		
Discharge of long-term liabilities	(666)	(8,759)	(2,000)
Repayment of long-term note payable	(18,759)		
Increase in short-term bank credit - net	8,194	5,287	6,341
Net cash provided by (used in) financing activities	(9,686)	4,528	9,841
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	35,047	(28,277)	36,659
CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR	17,814	46,091	9,432
CASH AND CASH EQUIVALENTS AT END OF YEAR	52,861	17,814	46,091
* Acquisition of assets and operations consolidated for the first time:			
Assets and liabilities at the date of acquisition:			
Deficiency in working capital (excluding cash and cash equivalents)	4,754		(361)
Fixed assets - net	(4,447)		(585)
Goodwill arising on acquisition	(2,043)		
Intangible assets arising on acquisition	(11,376)	(2,181)	(1,914)
Long-term loans and other liabilities	6,361		
Minority interests in subsidiary at date of acquisition	7,522		
Cash received (paid)	771	(2,181)	(2,860)
SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION:			
Interest paid	4,166	1,703	604
Income taxes paid	2,652	732	20,016

Supplementary information on investing activities not involving cash flows - as to the additional investment in an associated company in December 2002, see note 4b.

The accompanying notes are an integral part of the financial statements.

SCITEX CORPORATION LTD.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NOTE 1 - GENERAL:

a. Nature of operations

Scitex Corporation Ltd. (the "Company") is an Israeli corporation, which through its subsidiaries operates in one segment – wide format digital printing. The subsidiaries develop, manufacture and market industrial digital inkjet printing solutions mainly to the graphic arts, packaging and textile markets as well as related services and consumable products. As of the end of 2003, the Company (through its wholly-owned subsidiary) operated also in the high-speed digital printing segment, which was classified as discontinued operation, see b below. In addition, the Company holds interest in other companies that develop digital printing solution to industrial applications.

Amounts provided in these notes to the consolidated financial statements pertain to continuing operations - unless otherwise indicates.

b. Sale of the High-Speed Digital Printing segment

On November 25, 2003, the Company entered into an agreement according to which it will sell substantially all of the assets, liabilities and operations of its indirect wholly-owned subsidiary Scitex Digital Printing Inc. ("SDP") related to its High-Speed Digital Printing Business, including most of the distribution channels that served SDP, to Eastman Kodak Company ("Kodak"), for \$ 250 million in cash. Pursuant to the agreement, a \$25 million was held in escrow. \$15 million out of the above escrow amount was released in February 2004 to SDP's parent company ("SDC") account, and the remaining \$10 million will be held for up to two years and will be used for indemnification liabilities under the agreement.

The assets, net of liabilities sold are distinguishable as a component of the Company and classified as "Assets or Liabilities of discontinued operation" in accordance with Statement of Financial Accounting Standards No. 144 ("SFAS 144"), "Accounting for the Impairment on Disposal of Long-Lived Assets" of the Financial Accounting Standards Board of the United States ("FASB"). Direct costs to transact the sale were comprised of, but not limited to, broker commissions, legal and title transfer fees and closing costs, which will be expensed upon the completion of the transaction.

The closing of the transaction occurred on January 5, 2004. As a result of the transaction, the Company is expected to record a net gain of approximately \$ 60 million, approximately \$ 52 million of which will be included in the statement of operations for the first quarter of 2004, and approximately \$ 8 million of which were recognized in the fourth quarter of 2003 as a tax benefit related to expected utilization of carryforward tax losses including capital losses and is recorded under "income from discontinued operation".

Operating results of SDP have been reported in these financial statements as discontinued operations in accordance with SFAS 144 and the Company has reclassified the results of operations, the assets and liabilities of the component to be disposed for the prior period in accordance with provisions of SFAS 144.

SCITEX CORPORATION LTD.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (continued)

NOTE 1 - GENERAL (continued):

- 1) The assets and liabilities of SDP classified as discontinued operation in the Consolidated Balance Sheets, are as follows:

		December 31	
		2003	2002
		U.S. dollars in thousands	
A s s e t s			
Current assets:			
Cash and Short-term investments		16,056	15,717
Trade and other receivables		68,811	67,077
Inventories		40,506	31,501
Deferred income taxes		36,229	20,974
T o t a l current assets		161,602	135,269
Investment and other non-current assets			
		2,040	1,585
Property, plant and equipment, net of accumulated depreciation and amortization			
		26,223	30,783
Goodwill			
		19,730	19,730
Other intangible assets, net of accumulated amortization			
		904	1,197
T o t a l assets		210,499	188,564
Liabilities			
Current liabilities			
		31,935	21,388
Long-term liabilities:			
Deferred income taxes		3,883	5,033
Other		1,548	1,326
T o t a l liabilities		37,366	27,747

- 2) Revenues and net income from the discontinued operations of SDP are as follow:

				Year ended December 31		
				2003	2002	2001
				U.S. dollars in thousands		
REVENUES				170,113	157,111	164,596
COST OF REVENUES				101,721	98,573	99,745
GROSS PROFIT				68,392	58,538	64,851
OTHER OPERATION EXPENSES				56,300	52,772	57,812
OPERATING INCOME				12,092	5,766	7,039
FINANCIAL INCOME - net				3,970	1,103	40
OTHER LOSSES - net				(390)	(182)	
INCOME BEFORE TAXES ON INCOME				15,672	6,687	7,079
TAXES ON INCOME				(4,371)	2,193	97
NET INCOME FOR THE YEAR				20,043	4,494	6,982



SCITEX CORPORATION LTD.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (continued)

NOTE 2 - SIGNIFICANT ACCOUNTING POLICIES:

a. General:

1) Functional currency

The currency of the primary economic environment in which the operations of the Company and most of its subsidiaries are conducted is the U.S. dollar ("dollar" or "\$"); thus, the dollar is the functional currency of the Company and most of its subsidiaries.

For the Company and those subsidiaries whose functional currency is the dollar, transactions and balances denominated in dollars are presented at their original amounts. Balances in non-dollar currencies are translated into dollars using historical and current exchange rates for non-monetary and monetary balances, respectively. For non-dollar transactions reflected in the statements of operations, the exchange rates at transaction dates are used, except for expenses deriving from non-monetary items, which are translated using historical exchange rates. The currency transaction gains or losses are carried to financial income or expenses, as appropriate.

The financial statements of a subsidiary - relating to the discontinued operation, whose functional currency is its local currency, are translated into dollars in accordance with the principles set forth in Statement of Financial Accounting Standards ("FAS") No. 52 "Foreign Currency Translation". The resulting aggregate translation adjustments are presented in shareholders' equity, under "accumulated other comprehensive income (loss)".

2) Use of estimates in the preparation of financial statements

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the dates of the financial statements and the reported amounts of revenues and expenses during the reporting years. Actual results could differ from those estimates.

3) Accounting principles

The consolidated financial statements have been prepared in accordance with accounting principles generally accepted in the United States.

b. Principles of consolidation

The consolidated financial statements include the accounts of the Company and its subsidiaries. Intercompany balances and transactions have been eliminated in consolidation. Unrealized profits from intercompany sales have also been eliminated.

SCITEX CORPORATION LTD.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (continued)

NOTE 2 - SIGNIFICANT ACCOUNTING POLICIES (continued):

c. Cash and cash equivalents

The Company and its subsidiaries consider all highly liquid investments, with an original maturity of three months or less at time of investment, that are not restricted as to withdrawal or use, to be cash equivalents.

d. Investments in marketable securities

Trading securities which are carried at fair market value with unrealized gains and losses, are included in "financial income (expenses) - net". Trading securities are presented in the balance sheet under "short-term investments".

Other marketable securities consist of equity securities classified as "available-for-sale" securities and are presented in the balance sheet under "other investments and non-current assets". Available-for-sale securities are carried at fair market value with unrealized gains and losses, and are reported as a separate item under "other comprehensive income (loss)". Realized gains and losses and declines in value that are considered as other than temporary in nature on available-for-sale securities are included under "other loss - net" - see also note 5(b).

e. Other non-marketable investments

These investments are carried at cost, net of write-down for decrease in value, which is not of a temporary nature.

f. Inventories

Inventories are valued at the lower of cost or market. Cost is determined as follows:

Raw-materials - on the moving average basis.

Finished products and products in process - on basis of production costs:

Raw materials - on the moving average basis.

Labor and overhead component - actual manufacturing costs.

g. Investments in associated companies

Associated companies are companies over which significant influence is exercised, but which are not consolidated subsidiaries, and are accounted for by the equity method, net of write-down for decrease in value, which is not of a temporary nature. The excess of cost of investment in associated companies over the Company's share in their net assets at date of acquisition ("excess of cost of investment") represents amounts attributed to know-how and technology. The excess of cost of investment is amortized over a period of 5 years, commencing in the year of acquisition.

SCITEX CORPORATION LTD.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (continued)

NOTE 2 - SIGNIFICANT ACCOUNTING POLICIES (continued):

h. Property, plant and equipment

Property, plant and equipment are carried at cost and are depreciated by the straight-line method over their estimated useful life.

Annual rates of depreciation are as follows:

	<u>%</u>
Machinery and equipment	10-33 (mainly 20)
Building	2.5
Office furniture and equipment	6-33 (mainly 20)
Motor vehicles	15-25 (mainly 15)

Leasehold improvements are amortized by the straight-line method over the term of the lease or the estimated useful life of the improvements, whichever is shorter.

i. Goodwill

On January 1, 2002 the Company adopted FAS No. 142 "Goodwill and Other Intangible Assets". Under FAS 142, goodwill is no longer being amortized but tested for impairment at least annually.

Prior to January 1, 2002, goodwill was amortized on a straight-line basis, over periods of 7-15 years.

The Company identified two reporting units that consisted of its operating segments: wide format digital printing and high-speed digital printing – which was classified as discontinued operation (see also note 1b). The Company has utilized expected future discounted cash flows to determine the fair value of the reporting units and whether any impairment of goodwill existed – as of the date of adoption.

The Company has performed its annual goodwill impairment test during the fourth quarter of 2003. No impairment of goodwill resulted from the annual review performed in 2003.

j. Other intangible assets

Other intangible assets which consist mainly of technology, are presented at cost and are amortized by the straight-line method over a period of 5-6 years.

These intangible assets are presented net of write-down in value which is other than temporary, see also note 8.

SCITEX CORPORATION LTD.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (continued)

NOTE 2 - SIGNIFICANT ACCOUNTING POLICIES (continued):

k. Impairment in value of long-lived assets

The company has adopted FAS 144 "Accounting for the Impairment or Disposal of Long-Lived Assets" ("FAS 144") effective January 1, 2002. FAS 144 requires that long-lived assets, to be held and used by an entity be reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount of the assets may not be recoverable. Under FAS 144, if the sum of the expected future cash flows (undiscounted and without interest charges) of the long-lived assets is less than the carrying amount of such assets, an impairment loss would be recognized, and the assets would be written down to their estimated fair values.

The adoption of FAS 144 - on January 1, 2002 - did not have any material impact on the consolidated financial position and consolidated results of operations of the Company.

l. Deferred income taxes:

- 1) Deferred taxes are determined utilizing the asset and liability method based on the estimated future tax effects of differences between the financial accounting and tax bases of assets and liabilities under the applicable tax laws. Deferred income tax provisions and benefits are based on the changes in the deferred tax asset or tax liability from period to period. Valuation allowances are provided for deferred tax assets when it is more likely than not that all or a portion of the deferred tax assets will not be realized.
- 2) The Company may incur an additional tax liability in the event of an intercompany dividend distribution by non-Israeli subsidiaries; no additional tax has been provided, since the Company does not intend to distribute, in the foreseeable future, dividends which would result in an additional tax liability.
- 3) Taxes that would apply in the event of disposal of investments in non-Israeli subsidiaries have not been taken into account in computing the deferred taxes as long, as it is the Company's intention to hold these investments and not to realize them.
- 4) As stated in note 12a(1)a, upon distribution of dividends from tax-exempt income of "approved enterprises", the amount distributed will be subject to tax at the rate that would have been applicable had the Company not been exempted from payment thereof. The Israeli subsidiary intends to permanently reinvest the amounts of tax-exempt income and does not intend to cause dividend distribution from such income (see note 12a). Therefore, no deferred taxes have been provided in respect of such tax-exempt income.

m. Comprehensive income (loss)

In addition to net loss, other comprehensive income (loss) includes unrealized gains and losses on available-for-sale securities, currency translation adjustments of non-dollar currency financial statements of investee companies and gains and losses on certain derivative instruments designated for cash-flow hedge.

n. Treasury shares

Company shares held by the Company, are presented as a reduction of shareholders' equity, at their cost to the Company.

SCITEX CORPORATION LTD.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (continued)

NOTE 2 - SIGNIFICANT ACCOUNTING POLICIES (continued):

o. Revenue recognition:

- 1) Revenues from sales of products and supplies are recognized when an arrangement (usually in the form of a purchase order) exists, delivery has occurred and title passed to the customer, the Company's price to the customer is fixed or determinable and collectability is reasonably assured. With respect to products with installation requirements, revenue is recognized when all of the above criteria are met and installation is completed.

Sales contracts with distributors stipulate fixed prices and current payment terms and are not subject to the distributor's resale or any other contingencies. Accordingly, sales of finished products to distributors are recognized as revenue upon delivery and after title passes to distributors.
- 2) Service revenue is recognized ratably over the contractual period or as services are performed.
- 3) Warranty costs are provided for at the same time as the related revenues are recognized. The annual provision is calculated on the basis of the expected cost of inputs, based on historical experience.
- 4) Emerging Issues Task Force ("EITF") Issue 00-21, "Revenue Arrangements with Multiple Deliverables" addresses the accounting, by a vendor, for contractual arrangements in which multiple revenue-generating activities will be performed by the vendor. It is effective prospectively for all arrangements entered into in fiscal periods beginning after June 15, 2003. EITF Issue 00-21 addresses when and, if so, how an arrangement involving multiple deliverables should be divided into separate units of accounting. The Company adopted EITF Issue 00-21 in the year ended December 31, 2003 and it has had no significant impact on its financial position and results of operations.

p. Research and development costs, net

Research and development costs are charged to income as incurred. Royalty-bearing grants received from governments for approved projects are recognized as a reduction of expenses as the related costs are incurred.

q. Advertising

These costs are charged to income as incurred.

r. Shipping and handling costs

Shipping and handling costs are classified as a component of marketing expenses.

s. Allowance for doubtful accounts

The allowance for doubtful accounts is determined as a percentage of specific debts doubtful of collection.

SCITEX CORPORATION LTD.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (continued)

NOTE 2 - SIGNIFICANT ACCOUNTING POLICIES (continued):

t. Stock based compensation

The Company and its subsidiaries account for employee stock based compensation in accordance with Accounting Principles Board Opinion No. 25 "Accounting for Stock Issued to Employees" ("APB 25") and related interpretations. Under APB 25 compensation cost for employee stock option plans is measured using the intrinsic value based method of accounting, and is amortized by the straight-line method against income, over the expected service period.

FAS 123 "Accounting for Stock-Based Compensation", establishes a fair value based method accounting for employee stock options or similar equity instruments, and encouraged adoption of such method for stock compensation plans. However, it also allows companies to continue to account for those plans the accounting treatment prescribed by APB 25.

The following table illustrates the effect on net income (loss) and earning (loss) per share assuming the Company and its subsidiaries had applied the fair value recognition provisions of FAS 123 to stock-based employee compensation:

	Year ended December 31		
	2003	2002	2001
	\$ in thousands (except for per share data)		
Net loss from continuing operations - as reported	(18,656)	(36,524)	(260,002)
Add: stock based employee compensation expenses, included in reported net loss from continuing operations	-,-	-,-	-,-
Deduct: stock based employee compensation expenses determined under fair value method	(1,018)	(2,242)	(3,753)
Pro-forma net loss from continuing operations	(19,674)	(38,766)	(263,755)
Net income from discontinued operations - as reported	20,043	4,494	6,982
Add: stock based employee compensation expenses, included in reported net income from discontinued operations	-,-	-,-	-,-
Deduct: stock based employee compensation expenses determined under fair value method	(1,305)	(2,109)	
Pro-forma net income from discontinued operations	18,738	2,385	6,982
Pro-forma net loss	(936)	(36,381)	(256,773)
Basic and diluted earning (loss) per share - as reported:			
Continuing operations	(0.43)	(0.84)	(6.04)
Discontinuing operations	0.46	0.10	0.16
Net income (loss)	0.03	(0.74)	(5.88)
Pro-forma earning (loss) per share :			
Continuing operations	(0.46)	(0.90)	(6.13)
Discontinuing operations	0.44	0.05	0.16
Net loss	(0.02)	(0.85)	(5.97)

SCITEX CORPORATION LTD.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (continued)

NOTE 2 - SIGNIFICANT ACCOUNTING POLICIES (continued):

u. Earnings (loss) per share ("EPS")

Basic EPS are computed based on the weighted average number of shares outstanding during each year excluding the treasury stock held by the Company. Diluted EPS reflects the increase in the weighted average number of shares outstanding that would result from the assumed exercise of options, calculated using the treasury-stock-method (in 2003, 2002 and 2001) such effect was not included since it would have been anti-dilutive). In addition, diluted EPS does not reflect options granted by subsidiaries to be exercised to the subsidiaries shares and convertible loans, since their effect would have been anti-dilutive.

v. Derivatives and hedging activities

The Company has adopted FAS 133 "Accounting for derivative instruments and hedging activities". FAS 133, as amended, establishes accounting and reporting standards for derivatives and for hedging activities. Under FAS 133, all derivatives are recognized on the balance sheet at their fair value. On the date that the Company enters into a derivative contract, it designates the derivative, for accounting purposes, as:
(1) Hedging instrument, or (2) Non-hedging instrument.

For derivative financial instruments that are designated and qualify as a cash flow hedge, the effective portions of changes in fair value of the derivative are recorded in other comprehensive income (loss), and are recognized in the statement of operations when the hedged item affects earnings. Ineffective portions of changes in the fair value of cash flow hedges are recognized in earnings. Changes in the fair value of derivatives that do not qualify for hedge accounting are recognized in earnings.

w. First time application of the equity method in respect of an investment previously accounted for under the cost method

As of December 31, 2003, the Company holds approximately 23.47% of Objet Geometries Ltd. ("Objet") outstanding shares and 23.09% on a fully diluted basis. Through December 31, 2001, the Company accounted for this investment under the cost method. Commencing January 2002, the Company changed its method of accounting for this investment from the cost method to the equity method as required by APB 18 ("The equity method of accounting for investments in common stock").

The consolidated financial statements for the year 2001 have been adjusted retroactively to reflect the adoption of the equity method.

SCITEX CORPORATION LTD.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (continued)

NOTE 2 - SIGNIFICANT ACCOUNTING POLICIES (continued):

The effect of such adjustments on the consolidated statements of operations in the year ended December 31, 2001 was as follows:

	As previously reported	Effect of restatement	As reported in these financial statements
	\$ in thousands		
Share in losses of associated companies	(64,763)	(2,744)	(67,507)
Net loss	(250,276)	(2,744)	(253,020)
Loss per share - basic and diluted	\$ (5.82)	\$ (0.06)	\$ (5.88)

x. Recently issued accounting pronouncements:

- In January 2003, the FASB issued FASB Interpretation No. 46, "Consolidation of Variable Interest Entities" (FIN 46). Under FIN 46, entities are separated into two populations: (1) those for which voting interests are used to determine consolidation (this is the most common situation) and (2) those for which variable interests are used to determine consolidation. FIN 46 explains how to identify Variable Interest Entities (VIEs) and how to determine when a business enterprise should include the assets, liabilities, no controlling interests, and results of activities of a VIE in its consolidated financial statements. Since issuing FIN 46, the FASB has proposed various amendments to the Interpretation and has deferred its effective dates. Most recently, in December 2003, the FASB issued a revised version of FIN 46 (FIN 46-R), which also provides for a partial deferral of FIN 46. This partial deferral established the effective dates for public entities to apply FIN 46 and FIN 46-R based on the nature of the VIE and the date upon which the public company became involved with the VIE. In general, the deferral provides that (i) for VIEs created before February 1, 2003, a public entity must apply FIN 46-R at the end of the first interim or annual period ending after March 15, 2004, and may be required to apply FIN 46 at the end of the first interim or annual period ending after December 15, 2003, if the VIE is a special purpose entity, and (ii) for VIEs created after January 31, 2003, a public company must apply FIN 46 at the end of the first interim or annual period ending after December 15, 2003, as previously required, and then apply FIN 46-R at the end of the first interim or annual reporting period ending after March 15, 2004. The Company believes that the adoption of FIN 46 and FIN 46-R will not have material impact on its financial position, results of operations and cash flows.

SCITEX CORPORATION LTD.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (continued)

NOTE 2 - SIGNIFICANT ACCOUNTING POLICIES (continued):

2. In December 2003, the FASB issued SFAS No. 132 (revised 2003), "Employers' Disclosures about Pensions and Other Postretirement Benefits, an amendment of FASB Statements No. 87, 88 and 106, and a revision of FASB Statement No. 132 ("FAS 132 (revised 2003)") ". This Statement revises employers' disclosures about pension plans and other postretirement benefit plans. It does not change the measurement or recognition of those plans. The new rules require additional disclosures about the assets, obligations, cash flows, and net periodic benefit cost of defined benefit pension plans and other postretirement benefit plans. Part of the new disclosures provisions are effective for 2003 calendar year-end financial statements, and accordingly have been applied by the Company in these consolidated financial statements. The rest of the provisions of FAS 132, which have a later effective date, are currently being evaluated by the Company.

y. Reclassifications

Certain comparative figures have been reclassified to conform to the current year presentation.

NOTE 3 - ACQUISITIONS OF BUSINESSES

- a. Scitex Vision Ltd. (hereafter – "Scitex Vision") was formed by the Company and other investors during 1999 under the name Aprion Digital Ltd. Upon the formation of Scitex Vision, the Company transferred to Scitex Vision the activity of its Advanced Printing Products Division, in consideration for Scitex Vision shares, warrants and convertible note in the amount of \$ 20,000,000.

In the second quarter of 2001, the Company exercised all of the warrants that were granted by Scitex Vision, in consideration for \$ 2,500,000, and in the third quarter converted the note into Scitex Vision preferred shares. The excess of cost of investments over the Company's share in Scitex Vision's net assets at dates of transactions, in total amount of approximately \$ 5,000,000, was attributed to technology to be amortized over five years.

At December 31, 2002, the Company held approximately 43% of Scitex Vision's outstanding shares and the balance of the investment, accounted for under the equity method, was zero.

On January 1, 2003, the Company sold all of its shares in its then wholly owned subsidiary - Scitex Vision International Ltd. (then known as Scitex Vision Ltd.) (hereafter - "SV international"), to Scitex Vision, the Company's then associated company, in exchange for additional preferred shares in Scitex Vision. Subsequent to the transaction, the Company holds approximately 75% of Scitex Vision's outstanding shares. The transaction was accounted for, by the Company, as a sale of 25% in SV international and as acquisition of additional shares in Scitex Vision. The fair value of the transaction was approximately \$ 9 million. As a result, the Company recognized a net capital gain of \$ 289,000 under "Other expenses - net" (\$ 3,774,000 capital gain resulting from the sale of a portion in SV international, net of \$ 3,485,000 of dilution loss relating to Scitex Vision's preferred shares anti-dilution mechanism triggered by the transaction). In addition, the Company recognized a capital surplus of \$ 3,485,000 under "Beneficial conversion feature relating to convertible preferred shares issued by Scitex Vision" in its shareholders equity.

SCITEX CORPORATION LTD.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (continued)

NOTE 3 - ACQUISITIONS OF BUSINESSES (continued):

This acquisition was accounted for under the purchase method. As a result of the transaction the Company recorded technology and goodwill of approximately \$ 14.8 million and approximately \$ 2 million, respectively, of which approximately \$ 3.8 million was credited to minority interest. The technology is being amortized over 6 years.

Commencing on January 2003 Scitex Vision's financial statements are consolidated with those of the Company.

Here after are certain unaudited proforma combined statements of operations data for the year ended December 31, 2002 as if the acquisition of additional shares in Scitex Vision occurred on January 1, 2002, after giving effect to purchase accounting adjustments. The proforma financial information is not necessarily indicative of the combined results that would have been attained had the acquisition take place at the beginning of 2002, nor is it necessarily indicative of future results:

	Year ended December 31,
	2002
	(Unaudited)
	U.S. dollars in thousands (except per share data)
Revenues	91,018
Net loss from continuing operations	(45,375)
Net loss	(49,869)
Loss per share for continuing operation - basic and diluted	\$ (1.05)
Net loss per share - basic and diluted	\$ (1.16)

As to lawsuits filed in connection with this transaction see note 10b(1).

- b. In April 2002, SV international acquired some assets and operations from Siantec SARL ("Siantec") and its shareholders in consideration of \$ 2,470,000, of which \$ 1,860,000 was allocated to technology and \$ 610,000 to non-compete covenant. Those intangible assets were originally amortized according to a 6-year amortization rate (as to an impairment of the acquired intangibles, see note 8). This acquisition was made in order to obtain the advanced technology in the subsidiary's products. As part of the transaction additional maximum royalties payment of up to \$ 10,000,000 is to be paid conditional upon sales of systems and ink based on Siantec's technology. The payment of \$ 1,000,000 of the total amount is limited to a 5-year period, and the balance of \$ 9,000,000 is with no time limitation. As of December 31, 2003, no additional payment was made due to this transaction.
- c. In March 2001, SV international acquired the ink technology, other assets and operations from the Techno Ink manufacturing (PTY) Ltd. ("Tech Ink") for an aggregate consideration of \$ 2,860,000. The technology is amortized over 6 years. The agreement provides for additional payments to Tech Ink of up to a maximum of approximately \$ 5,500,000, based on the achievement of specified financial targets, such as reduction in manufacturing costs, during the period from 2001 to 2006. As of December 31, 2003, the total amount recorded to goodwill due to this agreement is \$ 2,441,000, of which \$ 1,258,000 was recorded during 2003.

SCITEX CORPORATION LTD.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (continued)

NOTE 4 - INVESTMENTS IN ASSOCIATED COMPANIES:

- a. An investment in Jemtex Ink Jet Ltd. ("Jemtex"), accounted for by the equity method, amounted to \$ 1,303,000 (\$ 2,560,000 – including convertible loan and debentures as described below) and \$ 4,703,000 as of December 31, 2003 and 2002, respectively. In December 2002, the Company signed a share purchase agreement with Jemtex, according to which, the Company invested additional \$ 2,400,000 in three equal quarterly installments of \$ 800,000 each. The first installment and an advance of \$ 250,000 on the last payment were made in December 2002. The additional \$ 1,350,000 was transferred in February and May 2003. The excess of cost of investment over the Company's share in Jemtex' net assets at the date of transaction in the amount of \$ 1,371,000 was attributed to technology to be amortized over five years.

In addition, Jemtex granted to the Company for no additional consideration, warrants to purchase (1) 3,181 preferred shares of Jemtex at an exercise price of \$ 251.467 per share, exercisable until January 2, 2004, and (2) 3,181 preferred shares of Jemtex at an exercise price of \$ 251.467 per share exercisable until March 31, 2005. An amount of \$ 51,000 was allocated to the said warrants out of the total above-mentioned investment of \$ 2,400,000.

In August 2003, the Company exercised the warrants to purchase 3,181 preferred shares of Jemtex at an exercise price of \$ 251.467 per share, exercisable until January 2, 2004, and in lieu of 3,181 preferred shares was issued an interest bearing note convertible (principal and interest) into preferred B shares or a more senior class of shares, as determined by the Company, in the amount of \$ 800,000.

In November and December 2003, the Company granted to Jemtex advance payments on account of convertible debentures of \$ 100,000 and \$ 350,000, respectively. See note 16b.

As of December 31, 2003, the Company's ownership interest in Jemtex is approximately 49.8% and approximately 47.8% on a fully diluted basis. However, commencing the third quarter of 2003, the Company is the sole financier of Jemtex' losses and accordingly is its full share in Jemtex' losses.

- b. As to the investment in Objet and its first time application of the equity method, see note 2w. The balance of this investment as of December 31, 2003 is approximately \$ 767,000, following an additional investment of approximately \$ 460,000.

SCITEX CORPORATION LTD.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (continued)

NOTE 5 - OTHER INVESTMENTS AND NON-CURRENT ASSETS:

a. Composed as follows:

	December 31,	
	2003	2002
	\$ in thousands	
Investment in Creo (see b. below)	-,-	51,062
Other investments (see c. below)	1,301	3,794
Non-current assets	-,-	275
	1,301	55,131

b. Creo

In June and August 2003, the Company sold all of its remaining holdings in Creo Inc. (hereafter - "Creo") shares for a net total consideration of \$ 54,000,000 and recorded a gain of approximately \$ 3,000,000. The investment in Creo shares was accounted for as shares available for sale, and following the sale of the shares the Company realized an amount of approximately \$ 750,000 recorded during 2003 to Other Comprehensive Income in its shareholders' equity. Until December 2001 the investment in Creo was accounted for using the equity method. The Company's share in the losses of Creo in 2001 amounted to \$ 60,183,000. In 2002, due to extended decline in fair market value, it was determined that the impairment in value of the investment was other than temporary. Consequently, the accumulated unrealized loss of \$ 22,283,000, which was charged to "other loss - net" in the statement of operation.

c. Other investments represent investments in non-marketable securities in companies operating in the digital printing and digital imaging industry, in which the Company does not exercise significant influence, and which are stated at cost, net of a write-down for decrease in value which is not of a temporary nature, in the amount of \$ 1,301,000. In 2003, due to an extended decline in fair value of an other than temporary nature, the Company recorded an accumulated loss in the amount of \$ 2,493,000 that was charged to "other loss - net" in the statement of operations.

SCITEX CORPORATION LTD.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (continued)

NOTE 6 - PROPERTY, PLANT AND EQUIPMENT

Grouped by major classifications, the assets are composed as follows:

	December 31	
	2003	2002
	\$ in thousands	
Machinery and equipment	4,567	4,027
Building	424	411
Leasehold improvements	4,606	1,854
Office furniture and equipment	5,209	4,750
Motor vehicles	16	34
	<u>14,822</u>	<u>11,076</u>
Less - accumulated depreciation and amortization	<u>(5,618)</u>	<u>(5,002)</u>
	<u>9,204</u>	<u>6,074</u>

Depreciation and amortization of property, plant and equipment from continuing operations totaled \$ 3,558,000, \$ 2,250,000 and \$ 2,204,000 in 2003, 2002 and 2001, respectively.

NOTE 7 - GOODWILL

- a. The changes in the carrying value of goodwill in respect of the continuing operations for the year ended December 31, 2002 and 2003, are as follows:

	\$ in thousands
Balance as of January 1, 2002*	988
Goodwill acquired during the year	<u>1,183</u>
Balance as of December 31, 2002	2,171
Goodwill acquired during the year	<u>3,301</u>
Balance as of December 31, 2003	<u>5,472</u>

- * In 2001 the Company recognized a goodwill impairment charge in the amount of \$ 1,925,000, see also note 8. This impairment was due to an evaluation that was performed by a third party appraiser, due to the significant decrease in the production of certain products based on the technology mentioned in note 8. The impairment was made in accordance with the provisions of FAS No. 121 "Accounting for the Impairment of Long-Lived Assets and for Long-Lived Assets to be Disposed of".

SCITEX CORPORATION LTD.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (continued)

NOTE 7 - GOODWILL (continued):

- b. The following table illustrates the Company's results adjusted to eliminate the effect of goodwill amortization expense, including goodwill with respect of an associated company accounted for by the equity method:

	Year ended December 31		
	2003	2002	2001
	\$ in thousands (except for per share data)		
Net loss from continuing operations - as reported	(18,656)	(36,524)	(260,002)
Add back: Goodwill amortization related to continuing operations			708
Goodwill amortization included in Share in losses of an associated Company			23,805
Net loss from continuing operations - adjusted	(18,656)	(36,524)	(235,489)
Net income from discontinued operation - as reported	20,043	4,494	6,982
Add back: Goodwill amortization related to discontinued operation			2,927
Net income from discontinued operation- adjusted	20,043	4,494	9,909
Pro-forma net income (loss)	1,387	(32,030)	(225,580)
Basic and diluted loss per share – as reported			
Continuing operations	(0.43)	(0.84)	(6.04)
Discontinued operation	0.46	0.10	0.16
	0.03	(0.74)	(5.88)
Pro-forma loss per share – adjusted			
Continuing operations	(0.43)	(0.84)	(5.47)
Discontinued operation	0.46	0.10	0.23
	0.03	(0.74)	(5.24)

NOTE 8 - OTHER INTANGIBLE ASSETS:

Composed as of December 31, 2003 and 2002, as follows:

	December 31	
	2003	2002
	\$ in thousands	
Gross carrying amount:	48,239	33,049
Accumulated amortization and impairment:	(30,212)	(21,682)
Amortized balance	18,027	11,367

* See note 3a regarding technology acquired during 2003.

Amortization expense in respect of intangible assets relating to the continuing operation totaled \$ 5,871,000, \$ 2,944,000 and 7,752,000 in 2003, 2002 and 2001, respectively.

SCITEX CORPORATION LTD.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (continued)

NOTE 8 - OTHER INTANGIBLE ASSETS (continued):

Estimated amortization expense for the following years, subsequent to December 31, 2003:

	<u>\$ in thousands</u>
Year ending December 31:	
2004	5,067
2005	4,686
2006	3,747
2007	2,255
2008	2,255

In January 2001, SV international acquired the intellectual property related to the manufacturing of inks compatible with its machines from Magic Inks B.V. for consideration of \$ 2,887,000. This intangible asset is amortized over 6 years. As to an impairment of the acquired intangible asset see below.

In 2001 and 2003 the financial statements include a write-down charge due to the impairment of technology and know-how in a subsidiary, in the amounts of \$ 13,061,000 and \$ 2,967,000, respectively. These impairments followed an evaluation performed by a third party appraiser, due to the significant decrease in the production of certain products based on the above-mentioned technologies. The impairment calculation in 2001 and 2003 was prepared in accordance with the provisions of SFAS 121 and SFAS 144, respectively.

NOTE 9 - EMPLOYEE RIGHTS UPON RETIREMENT:

- a. Israeli labor laws and agreements require the payment of severance pay upon dismissal of an employee or upon termination of employment in certain other circumstances. The liability is based upon the length of service and the latest monthly salary (one month's salary for each year worked), and is mainly funded with severance pay and pension funds and with insurance companies (principally with an affiliate of the two major shareholders of the Company), for which the Company and its Israeli subsidiaries make monthly payments.
The Company records the long-term obligation as if it was payable at each balance sheet date on an undiscounted basis.
- b. The U.S. subsidiary offers 401(k) matching plans to all eligible employees.
- c. Substantially all of the European subsidiaries make contributions to pension plans administered by insurance companies.
- d. Severance pay, pension and defined contribution plan expenses totaled \$ 1,523,000, \$ 563,000 and \$ 476,000 in 2003, 2002 and 2001, respectively.
- e. The Company expects to contribute in 2004, \$ 626,000 to the insurance companies and provident fund in respect of its severance pay obligation in Israel.

SCITEX CORPORATION LTD.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (continued)

NOTE 10 - COMMITMENTS AND CONTINGENT LIABILITIES:

a. Commitments:

1) Royalty commitments:

- (a) A subsidiary is committed to pay royalties of 3%-5% to the Government of Israel on sales of products in the research and development of which the Government participates by way of grants, up to the amount of the grants received (dollar linked), plus annual interest based on the Libor, accruing from January 1, 1999. At the time the funding was received, successful development of the related projects was not assured. In the case of failure of a project that was partly financed by government grants, the subsidiary is not obligated to pay any such royalties to the Israeli Government.

At December 31, 2003, the maximum contingent royalty payable is approximately \$ 4.2 million.

Royalties expense totaled \$ 128,000, \$ 700,000 and \$ 694,000 in 2003, 2002 and 2001, respectively.

- (b) A subsidiary is obligated to pay royalties to certain parties, based on agreements which allow it to use technologies developed by these parties. Such royalties are based on the revenues from sales of products which incorporate these technologies or on quantities of such products sold.

2) Operating leases

Most of the premises occupied by the Company and its subsidiaries are rented under various operating lease agreements. Part of the premises in Israel were leased from an affiliate of the two major shareholders of the Company, see also 3 below.

Minimum lease payments of the Company and its subsidiaries under the above leases, at rates in effect on December 31, 2003, are as follows:

	<u>\$ in thousands</u>
Year ending December 31:	
2004	2,005
2005	1,899
2006	1,751
2007	1,711
2008	1,711
2009 and thereafter	2,317

Most of the rental payments for the Israeli premises are payable in Israeli currency, partially linked to the Israeli CPI, to the dollar or both to the dollar and the U.S. CPI.

Rental expense relating to continuing operations totaled \$ 2,449,000, \$ 1,158,000 and \$ 1,163,000 in 2003, 2002 and 2001, respectively.

SCITEX CORPORATION LTD.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (continued)

NOTE 10 - COMMITMENTS AND CONTINGENT LIABILITIES (continued):

- 3) Commencing November 1, 2001, the Company's headquarters are located on the premises of one of its major shareholders. The Company obtains the services of certain executives and other staff as well as certain services from the shareholder, for which the Company pays amounts based on formulas determined in the agreement between the Company and the shareholder.

Expenses due to the said agreement totaled \$ 518,000, \$ 445,000 and \$ 92,000 in 2003, 2002 and 2001, respectively.

b. Contingent liabilities:

- 1) In October 2003, a minority shareholder of Scitex Vision filed a NIS 14 million (approximately \$ 3.1 million) lawsuit against the Company, Scitex Vision and others, including certain other shareholders of Scitex Vision (among them, the Company's two main shareholders) and the directors of Scitex Vision in the period relevant for the lawsuit (three of whom are present or former office holders of the Company). The lawsuit was brought in connection with the transaction to combine the operations of SV international and Scitex Vision that was completed in January 2003. In particular, the lawsuit alleges that the terms of the transaction and the manner in which it was effected prejudiced the rights of the plaintiff as a minority shareholder. At this time, the Company and Scitex Vision are unable to assess the outcome of this matter, while they intend to defend it vigorously. No provision was recorded for this matter in these financial statements.

In November 2003, the same minority shareholder sent a demand letter to Scitex Vision, whereby it demanded that Scitex Vision will file a lawsuit against the Company and others (including Scitex Vision's directors), alleging breach of fiduciary duties, misrepresentations and misleading in connection with the Company's undertaking to transfer \$ 15 million to SV international as part of the aforesaid transaction. In January 2004, Scitex Vision rejected these demands. In the event that the minority shareholder decides to commence a derivative action, it is not possible at this stage in time to predict the outcome of such legal proceedings. No provision was recorded for this matter in these financial statements.

In December 2003, the same minority shareholder filed a separate motion against the Company, Scitex Vision and two other shareholders of Scitex Vision (including one of the Company's principal shareholders), in connection with a rights offering that was completed in July 2003. In particular, the motion alleges that the reorganization of Scitex Vision's share capital that was affected in conjunction with the rights offering was invalid and prejudiced the rights of the minority shareholder. In light of its arguments, the plaintiff requested the court to order the respondents to provide information and documents with respect to the reorganization of Scitex Vision's share capital.

At this stage in time, it is not possible to predict the outcome of this particular matter. No provision was recorded for this matter in these financial statements.

SCITEX CORPORATION LTD.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (continued)

NOTE 10 - COMMITMENTS AND CONTINGENT LIABILITIES (continued):

- 2) In January 2003 a subsidiary has received a letter from the legal advisors of a service provider claiming compensation in the amount of approximately \$ 845,000. The letter of demand alleges that the subsidiary has a contractual relationship with this service provider. At this time it is not possible to assess the outcome of this matter, and the subsidiary intends to defend it vigorously. No provision was recorded for this matter in the financial statements.
- 3) In July 2000 a monetary claim in the amount of approximately \$ 413,000 against the Company was filed with the district court in Jerusalem. In this lawsuit it was claimed that a machine the Company sold to the plaintiff did not function as promised by the Company. In April 2000, the Company sold substantially all of the assets, liabilities and operations related to its Digital PrePrint business to Creo. Therefore, defense is being handled by Creo. In the opinion of the Company's management, since this lawsuit is in the framework of an indemnification agreement with Creo, it will have minimal effect on the Company, if any. Therefore no provision was recorded for this matter.
- 4) In October 2002 the liquidator of a company, which the Company had an investment in, which was fully written-off during 2001, filed a lawsuit against directors and other executives of this company. Among the defendants is a former executive of the Company, for which the Company had directors' insurance. Under the insurance, the maximum amount which the Company might have to pay is approximately \$ 100,000. The Company is vigorously contesting this lawsuit. Management believes that the chances the Company will have to pay the said amount are low. Therefore no provision was recorded for this matter.
- 6) In December 2003, three minority shareholders of Objet, a company in which the Company has a 23.47% interest, filed an approximate NIS 7.8 million (approximately \$ 1.75 million) lawsuit against Objet, certain of its shareholders, including the Company, and certain of Objet's directors. The lawsuit alleges that the defendants acted in a manner that prejudiced the rights of the minority shareholders, and breached Objet's obligations to such shareholders. Among the remedies being sought by the said minority shareholders are compensation, restitution (with linkage and interest) of the investment amount, or repurchase of the plaintiffs' shares in Objet, and a demand for changes to the terms of certain convertible loans made to Objet by certain of the defendants including the Company. At this time the Company's attorneys are still evaluating the claim, and neither Objet nor the Company is able to give any realistic assessment as to the outcome of this matter, therefore no provision was recorded.
- 7) In 1997, a lawsuit was filed against the Company in Germany, which suit was also defended by a third party, claiming \$ 5 million (together with interest since 1997) in relation to a purported guarantee which would have required the acquisition by the Company of additional shares in a company now in liquidation. Following prolonged negotiations, it is probable that this lawsuit will be settled by both the Company and the third party in equal shares paying significantly lesser amount than the original claim, and in respect of which the Company recorded a provision.

SCITEX CORPORATION LTD.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (continued)

NOTE 10 - COMMITMENTS AND CONTINGENT LIABILITIES (continued):

- 8) Claims have been filed against the Company and its subsidiaries in the ordinary course of business. The Company and its subsidiaries intend to defend themselves vigorously against those claims. Management does not expect that the Company will incur substantial expenses in respect thereof; therefore, no provision has been made for the claims.
- 9) As to contingent royalties, see note 3a and note 3b.
- 10) As to tax assessments of two of the Company's subsidiaries, see note 12h.

c. Guarantees

- 1) In connection with a bank loan received by SV international, the Company granted a guarantee in favor of the bank. As of December 31, 2003 the total amount guaranteed is approximately \$ 1,333,000.
- 2) Scitex Vision granted guarantees in favor of its premises lessor suppliers, certain of its customers and suppliers and a government institution. As of December 31, 2003, the guarantees outstanding are as follows:
 - a. Scitex Vision entered into a surety agreement with a financial institution and suppliers of its premises lessor, under which the Scitex Vision guarantees lease payments in favor of the lessor. As of December 31, 2003 the total amount guaranteed was \$ 255,000. The fair value of the guarantee is immaterial.
 - b. Scitex Vision entered into a surety agreement with a financial institution and certain of its suppliers, pursuant to which Scitex Vision guarantees payments in favor of the suppliers. As of December 31, 2003 the total amount guaranteed was \$ 260,000. The fair value of the guarantee is immaterial.
 - c. Scitex Vision has provided guarantees for payment to a governmental institution in a European country in the total amount of \$ 616,000.
 - d. Scitex Vision entered into a surety agreement with leasing companies and certain of its customers, under which Scitex Vision guarantees lease payments of its customers to the leasing companies. As of December 31, 2003 the total amount guaranteed was \$ 175,000. The fair value of the guarantee is immaterial.

NOTE 11 - SHAREHOLDERS' EQUITY:

a. Share capital:

- 1) The Company's shares are traded on NASDAQ and on the Tel Aviv Stock Exchange ("TASE").
On December 31, 2003 the Company's share closed on NASDAQ and the Tel Aviv Stock Exchange at approximately \$ 5.06 and \$ 5.04, respectively.
- 2) The number of shares stated as issued and outstanding - 43,467,388 shares at December 31, 2003 and 2002 - includes 448,975 shares repurchased by the Company (treasury shares, see note 2n) and held by a trustee for the benefit of employees within the framework of the Company's share option plans. These shares, until purchased by employees pursuant to a share option plan, bear no voting rights or rights to cash dividends.

SCITEX CORPORATION LTD.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (continued)

NOTE 11 - SHAREHOLDERS' EQUITY (continued):

b. Share incentive and stock option plans:

- 1) On December 31, 2001, the 2001 annual general meeting of shareholders of the Company approved the adoption of the Scitex 2001 Stock Option Plan that permits the grant of options to officers, employees, directors, consultants and contractors of the Company, its subsidiaries and controlled entities for the purchase of, initially, up to an aggregate of 750,000 shares of the Company. Option awards may be granted under this plan until November 5, 2011. The maximum term of an option may not exceed ten years. Each option can be exercised to purchase one share having the same rights as the other ordinary shares of the Company.
- 2) On December 31, 2003, the 2003 annual general meeting of shareholders of the Company approved the adoption of the Scitex 2003 Share Option Plan that permits the grant of options to employees, directors, consultants and contractors of the Company, its subsidiaries and affiliates, under the provisions of either section 102 or section 3(9) of the Israeli Income Tax Ordinance. Option awards may be granted under this plan until November 23, 2013. The maximum term of an option may not exceed ten years. Each option can be exercised in purchase of one share having the same rights as the other ordinary shares of the Company.
- 3) The 2003 annual general meeting of shareholders also approved an increase in the aggregate number of shares that may be issued under the 2001 plan and the 2003 plan to 1,900,000. At December 31, 2003, no options had been granted under either the 2001 plan or the 2003 plan.
- 4) The 2001 plan replaced two earlier share option plans - the Scitex Israel Key Employee Share Incentive Plan 1991 (with various sub-plans), mainly for directors, officers and other key employees of the Company and its Israeli subsidiaries, and the Scitex International Key Employee Stock Option Plan 1991 (As Amended, 1995), for officers and other key employees of non-Israeli subsidiaries. These plans expired in September 2001, except with respect to outstanding options granted under such plans. The options granted under such plans generally vested ratably over a period of 3-4 years. The maximum term of an option could not exceed ten years. Each option can be exercised in purchase of one share having the same rights as the other ordinary shares.
- 5) The Israeli option plans are subject to the terms stipulated by Section 102 of the Israeli Income Tax Ordinance. Inter alia, these terms provide that the Company will be allowed to claim, as an expense for tax purposes, the amounts credited to the employees as a benefit in respect of shares or options granted under the plan, as follows:

Through December 31, 2002, the amount that the Company was allowed to claim as an expense for tax purposes will be the amount of the benefit chargeable to tax in the hands of the employee.

As from January 1, 2003, the amount that the Company will be allowed to claim as an expense for tax purposes, will be the amount of the benefit chargeable to tax as work income in the hands of the employee, while that part of the benefit that is chargeable to capital gains tax in the hands of the employee shall not be allowable. All being subject to the restrictions specified in Section 102 of the Income Tax Ordinance.

The aforementioned expense will be recognized in the tax year that the benefit is credited to the employee.

SCITEX CORPORATION LTD.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (continued)

NOTE 11 - SHAREHOLDERS' EQUITY (continued):

- 6) The options granted under the Company's plans are exercisable for the purchase of shares as follows:

	December 31	
	2003	2002
	Number of options	
At balance sheet date	978,732	1,139,728
During the first year thereafter	8,334	104,430
During the second year thereafter		8,334
	987,066	1,252,492

- 7) A summary of the status of the Company's plans at December 31, 2003, 2002 and 2001, and changes during the years ended on those dates, is presented below:

	Year ended December 31					
	2003		2002		2001	
	Number	Weighted average exercise price	Number	Weighted average exercise price	Number	Weighted average exercise price
		\$		\$		\$
Options outstanding at beginning of year	1,252,492	10.34	1,724,203	10.18	2,246,465	10.06
Changes during the year:						
Granted - at fair value					25,000	8.18
Forfeited and canceled	(265,426)	9.82	(471,711)	9.76	(547,262)	9.59
Options outstanding at end of year	987,066	10.48	1,252,492	10.34	1,724,203	10.18
Options exercisable at end of year	978,732	10.50	1,139,728	10.33	1,425,617	10.09
Options available for future awards	1,900,000		750,000		750,000	

The weighted average fair value of options granted during 2001 is \$ 2.76.

The fair value of each option grant is estimated on the date of grant using the Black-Scholes option-pricing model with the following weighted average assumptions:

	Year ended December 31
	2001
Dividend yield per share - in dollars	-, -
Expected volatility	58%
Risk-free interest rate	4.0%
Expected life - in years	2.00

SCITEX CORPORATION LTD.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (continued)

NOTE 11 - SHAREHOLDERS' EQUITY (continued):

- 8) The following table summarizes information about options under the Company's plans outstanding at December 31, 2003:

Options outstanding				Options exercisable	
Range of exercise prices	Number outstanding at December 31, 2003	Weighted average remaining contractual life	Weighted average exercise price	Number exercisable at December 31, 2003	Weighted average exercise price
\$		Years	\$		\$
8.00 to 8.99	25,000	7.0	8.18	16,666	8.18
9.00 to 9.99	279,999	2.4	9.06	279,999	9.06
10.00 to 10.99	265,417	6.4	10.68	265,417	10.68
11.00 to 11.99	370,500	1.5	11.36	370,500	11.36
12.00 to 12.99	46,150	3.1	12.07	46,150	12.07
8.00 to 12.99	987,066	3.3	10.34	978,732	10.50

- 9) An award in 1999, whereby 50 % of 300,000 options awarded in earlier years to a related party, with an exercise price of \$ 14.75 per option, were re-priced to an exercise price of \$ 11.69 per option (the then market price per share), accompanied by a waiver of the remaining 50 %. Such options were exercisable from 1999 and are exercisable until June 2004. The fair value of each option granted was \$ 3.21. In accordance with FIN 44, the re-priced options are accounted for under variable plan accounting. Under this method of accounting, increases in the fair market value of the underlying shares result in non-cash compensation charges to the statement of operations. At December 31, 2003, 2002 and 2001, the market price of the underlying shares was below \$ 11.69 (the exercise price of the options), thus, no compensation cost has been charged with respect to these options. Future periods may reflect charges depending on the fair market price of the underlying shares.
- 10) Stock option plans of subsidiaries:
- a) On February 7, 2000, the Board of Directors of an Israeli subsidiary approved an employee share option plan (the "Subsidiary Plan"). Pursuant to the Subsidiary Plan, 2,600,000 ordinary shares of the subsidiary are reserved for issuance upon the exercise of 2,600,000 options to be granted to some of the subsidiary's employees. During 2000, the subsidiary granted 2,254,000 options to employees under the Subsidiary Plan, at an exercise price per share of \$ 6.50. The options vest as follows: 33 % after the first year, another 33 % after the second year and another 33 % after the third year starting from the date of beginning of employment of each employee, or the grant date, as determined by the stock option committee, provided the employee is still in the subsidiary's employ. Any option not exercised within 7 years of grant date will expire. During 2001, the subsidiary granted additional 415,000 options with identical conditions to those granted in 2000, and 258,000 options were forfeited. During 2002, no options were granted under the Subsidiary Plan.

The weighted average fair value of options granted by the subsidiary during 2001 is \$ 2.44. The fair value of each option grant is estimated on the date of grant using the Black-Scholes option-pricing model with the following weighted average assumptions: dividend yield per share is nil, expected volatility of 50 %, risk-free interest rate of 4.0 %, expected life of 3 years.

SCITEX CORPORATION LTD.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (continued)

NOTE 11 - SHAREHOLDERS' EQUITY (continued):

None of these options were exercised and during 2002 all of the outstanding options were waived by the respective grantees.

In April 2002 all of this subsidiary's options were canceled.

In September 2003, the subsidiary's board of directors approved an employee stock option plan (hereafter - the plan), whereunder options to purchase up to 13,179,544 ordinary shares of the subsidiary are to be granted to employees, directors and consultants of the subsidiary without consideration. Each option can be exercised to purchase one ordinary share of NIS 0.01 par value of the subsidiary.

Immediately upon exercise, the ordinary shares purchased in exercise of the option will have the same rights as of the subsidiary's other ordinary shares. Any option not exercised within 10 years from allotment date will expire, unless extended by the board of directors of the subsidiary.

At December 31, 2003, there were 12,531,041 options outstanding subject to the 2003 plan, of which 6,079,265 were vested.

All options were granted at an exercise price of \$ 0.4052, which management determined is not less than the fair value of an ordinary share in the date of grant.

The weighted fair value of options granted by the subsidiary during 2003 is \$ 0.14. The fair value of each option grant is estimated on the date of grant using the Black-Scholes option-pricing model with the following weighted average assumptions: dividend yield per share is nil, expected volatility of 48%, risk-free interest rate of 2.2%, expected life of 3 years.

During 2003, no options were exercised.

In addition, approximately 193,474 options to purchase ordinary shares of the subsidiary are held by former directors of the acquired subsidiary.

- b) In consideration of a credit line received by an acquired subsidiary a total amount of 56,180 options were granted to a bank in 2002 and are exercisable in to ordinary shares of the acquired subsidiary in exercise price set at \$8.90 per share. The fair value of the warrant granted to the bank calculated as of December 31, 2003, was immaterial.
- c) On December 6, 2001, the Board of Directors of a United States subsidiary approved an employee share option plan (the "US Subsidiary Plan"). Pursuant to the US Subsidiary Plan, 2,600,000 shares of Common Stock of the subsidiary are reserved for issuance upon the exercise of 2,600,000 options to be granted to some of the subsidiary's employees.

During 2001, the subsidiary had granted 957,000 options to employees under the US Subsidiary's Plan, at an exercise price per share of \$ 6.00. During 2002, the subsidiary granted additional 366,000 options on identical conditions to those grants in 2001, and 66,000 options were forfeited. During 2003, the subsidiary granted additional 143,000 options on identical conditions to those grants in 2001, and no option were forfeited. The options vest as follows: 25 % one year from the grant date and thereafter 6.25 % on the last day of every third calendar month. Any option not exercised within 10 years of grant date will expire.

SCITEX CORPORATION LTD.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (continued)

NOTE 11 - SHAREHOLDERS' EQUITY (continued):

The weighted fair value of options granted by the subsidiary during 2003 is \$ 3.99. The fair value of each option grant is estimated on the date of grant using the Black-Scholes option-pricing model with the following weighted average assumptions: dividend yield per share is nil, expected volatility of zero, risk-free interest rate range from 4.25% to 5.44%, expected life of 10 years.

The weighted fair value of options granted by the subsidiary during 2002 is \$ 3.24. The fair value of each option grant is estimated on the date of grant using the Black-Scholes option-pricing model with the following weighted average assumptions: dividend yield per share is nil, expected volatility of zero, risk-free interest rate range from 5.29% to 5.44%, expected life of 10 years.

The weighted fair value of options granted by the subsidiary during 2001 is \$ 3.25. The fair value of each option grant is estimated on the date of grant using the Black-Scholes option-pricing model with the following weighted average assumptions: dividend yield per share is nil, expected volatility of zero, risk-free interest rate of 5.29%, expected life of 10 years.

As of December 31, 2003, 607,750 options were exercisable.

At December 31, 2003, had all options been exercised, the Company's share in the equity of the US subsidiary would have decreased from 100% to approximately 93%. Subsequent to December 31, 2003, the Company sold the operations of the US subsidiary and all options under the US Subsidiary Plan were cancelled. See also note 1b.

c. Retained earnings

Dividends are declared and paid in dollars (except to shareholders of record with an address in Israel, with respect to whom payment is made in Israeli currency ("NIS")).

NOTE 12 - TAXES ON INCOME:

a. The Company and its Israeli subsidiary:

1) Tax benefits under the Israeli Law for the Encouragement of Capital Investments, 1959 (hereafter- the law)

By virtue of the "approved enterprise" status granted to certain production facilities under the law, the Israeli subsidiary is entitled to various tax benefits, as follows:

a) Reduced tax rates

The tax benefit period is seven years from the year in which the approved enterprise first earns taxable income. Income derived from the approved enterprise is tax exempt during the first two years of the seven year tax benefit period and is subject to a reduced tax rate of 25% during the remaining five years of benefits. The period of benefits relating to the approved enterprise will expire in the years 2009-2010.

SCITEX CORPORATION LTD.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (continued)

NOTE 12 - TAXES ON INCOME (continued):

In the event of distribution of cash dividends out of income which was tax exempt as above, the Israeli subsidiary would have to pay the 25% tax in respect of the amount distributed.

The Israeli subsidiary intends to permanently reinvest the amounts of tax-exempt income in the foreseeable future, and not to cause distribution of such dividends.

b) Accelerated depreciation

The Israeli subsidiary is entitled to claim accelerated depreciation for five tax years commencing in the first year of operation of each asset, in respect of machinery and equipment used by the approved enterprise.

c) Conditions for entitlement to the benefits

The entitlement to the above benefits is conditional upon the Israeli subsidiary's fulfilling the conditions stipulated by the law, regulations published hereunder and the instruments of approval for the specific investments in the "approved enterprise". In the event of failure to comply with these conditions, the benefits may be cancelled and the Israeli subsidiary may be required to refund the amount of the benefits, in whole or in part, with the addition of linkage differences to the Israeli consumer price index ("CPI") and interest.

2) Measurement of results for tax purposes under the Income Tax (Inflationary Adjustments) Law, 1985 (hereafter - the Inflationary Adjustments Law)

Under this law, results for tax purposes are measured in real terms, in accordance with the changes in the Israeli CPI, or in the exchange rate of the dollar for a "foreign investors' company". The Company and its Israeli subsidiaries elected to measure their results on the basis of the changes in the Israeli CPI.

Paragraph 9 (f) of FAS 109, "Accounting for Income Taxes", prohibits the recognition of deferred tax liabilities or assets that arise from differences between the financial reporting and tax bases of assets and liabilities that are measured from the local currency into dollars using historical exchange rates, and that result from changes in exchange rates or indexing for tax purposes. Consequently, the abovementioned differences were not reflected in the computation of deferred tax assets and liabilities.

3) Tax benefits under the Law for the Encouragement of Industry (Taxation), 1969

The Israeli subsidiary is an "industrial company" as defined by this law and as such is entitled to certain tax benefits, mainly accelerated depreciation of machinery and equipment, as prescribed by regulations published under the Inflationary Adjustments Law, and the right to claim public issuance expenses and amortization of patents and other intangible property rights as a deduction for tax purposes.

4) Tax rates applicable in Israel to income not derived from an approved enterprise

Income not eligible for the "approved enterprise" benefits mentioned in (1) above is taxed at the regular rate of 36%.

SCITEX CORPORATION LTD.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (continued)

NOTE 12 - TAXES ON INCOME (continued):

b. Non-Israeli subsidiaries

The non-Israeli subsidiaries are taxed under the laws of their countries of residence.

c. Carryforward tax losses and deductions

Carryforward tax losses and deductions of the Company and its subsidiaries, including capital losses and losses from realization of marketable securities approximated \$ 500 million at December 31, 2003. Most of the carryforward amounts are available indefinitely with no expiration date.

d. Reform of the Israeli tax system

In 2002, Amendment to the Israeli Tax ordinance (No. 132), 2002 (the "Israeli Tax Reform Law") was published. The Israeli Tax reform Law comprehensively reforms certain parts of the Israeli tax system and entered into effect on January 1, 2003, although certain provisions thereof will be applied from later dates.

The Israeli subsidiaries expects that the implementation of the Israeli tax reform will not have a material effect on its tax status and liabilities thereof.

e. Deferred income taxes:

	December 31	
	2003	2002
	\$ in thousands	
Computed in respect of the following:		
Allowance for doubtful accounts and other provisions	1,512	1,188
Carryforward tax losses and credits	168,620	99,076
Inventories	1,440	540
Investments	9,364	23,245
Accrued liabilities and deferred income	1,173	406
Property, plant and equipment	60	64
Intangible assets	2,927	600
	185,096	125,119
Less - valuation allowance (attributed mainly to loss carryforwards and expenses deductible upon payment)	(184,984)	(123,253)
	112	1,866
Deferred income taxes are included in the balance sheets as follows:		
Non-current assets	112	1,866

SCITEX CORPORATION LTD.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (continued)

NOTE 12 - TAXES ON INCOME (continued):

f. Loss before taxes on income from continuing operation:

	Year ended December 31		
	2003	2002	2001
	S in thousands		
The Company and its Israeli subsidiaries	(23,616)	(29,198)	(187,906)
Non-Israeli subsidiaries	9,453	(3,868)	(1,632)
	(14,163)	(33,066)	(189,538)

g. Taxes on income included in the statements of operations - from continuing operation:

1) As follows:

	Year ended December 31		
	2003	2002	2001
	S in thousands		
Current:			
Israeli	(404)	400	3,547
Non-Israeli	1,052	(984)	1,212
	648	(584)	4,759
Deferred, see e. above:			
Israeli	1,866	(64)	(1,802)
Non-Israeli	(112)		
	1,754	(64)	(1,802)
	2,402	(648)	2,957

SCITEX CORPORATION LTD.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (continued)

NOTE 12 - TAXES ON INCOME (continued):

- 2) Following is a reconciliation of the theoretical tax expense, assuming all income is taxed at the regular tax rate applicable to Israeli corporations (see a(4) above) and the actual tax expense:

	Year ended December 31		
	2003	2002	2001
	S in thousands		
Income (loss) before taxes on income	(14,163)	(33,066)	(189,538)
Theoretical tax expense (tax benefit) on the above amount	(5,099)	(11,904)	(68,234)
Effect of lower tax rate for "approved enterprises"		(400)	
	(5,099)	(12,304)	(68,234)
Increase (decrease) in taxes resulting from different tax rates - net	(6,670)	(5,253)	130
Increase in taxes resulting from permanent differences	838	408	666
Change in valuation allowance	61,731	87,602	76,849
Changes in deferred taxes resulting from carryforward tax losses	(49,970)	(71,275)	(4,246)
Increase in taxes resulting from prior years	1,950		
Increase (decrease) in taxes arising from differences between non-dollar currencies income and dollar income - net, and other*	(378)	174	(2,208)
Taxes on income in the consolidated statements of operations	2,402	(648)	2,957

* Resulting mainly from the difference between the changes in the Israeli CPI (the basis for computation of taxable income of the Company and its Israeli subsidiaries, see a(2) above) and the changes in the exchange rate of Israeli currency relative to the dollar.

h. Tax assessments

- 1) The Company has received, or is considered to have receive, final tax assessments through the 1998 tax year.
- 2) In partial settlement of an audit of the Internal Revenue Service (IRS) of the Company's U.S. subsidiaries for the years 1992 through 1996, the Company consented to a "partial assessment" by the IRS for approximately \$ 10.6 million of federal taxes on certain agreed upon issues. This amount excludes interest and state income taxes, which will be assessed by the IRS and are expected to almost double the above amount. The Company has already made advance payments of \$ 21.5 million on account of this audit. In June 2002, the Company received a notice from the IRS proposing to assess \$ 29.6 million of additional federal income taxes for the years 1992 through 1996. This amount excludes state income taxes and interest, which would almost double that figure. In August 2002, the Company appealed the proposed additional assessment. The Company has conducted advanced negotiations with the IRS for settlement of this assessment, which was finalized during February 2004 (see note 16a). The Company's management believes, based on its consultants' advice, that sufficient provision for this matter is included in accrued liabilities.

SCITEX CORPORATION LTD.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (continued)

NOTE 12 - TAXES ON INCOME (continued):

- 3) During 2002, a couple of the Company's subsidiaries received tax assessments for which the Company's management believes, based on its consultants' advice, sufficient provision was accrued. During 2003, one of those subsidiaries consented to an assessment by the Israeli authorities for the years 1996-2001 for approximately \$ 2.1 million, of which approximately \$ 1.8 million will be payable in 24 monthly installments commencing April 2004. This assessment was finally signed and settled in January 2004. Sufficient provision was previously accrued in connection with the assessment.

NOTE 13 - FINANCIAL INSTRUMENTS AND RISK MANAGEMENT:

a. Foreign exchange risk management

The Company and its subsidiaries operate internationally, which gives rise to significant exposure to market risks, mainly from changes in foreign exchange rates. Derivative financial instruments (hereafter - derivatives) were utilized by a subsidiary to reduce these risks. The Company did not hold or issue derivative financial instruments for trading purposes.

Commencing 2003, a subsidiary purchases forward-exchange contracts as hedges of certain anticipated sales and related costs denominated in foreign currencies. The subsidiary enters into these contracts to protect itself against the risk that the eventual dollar-net-cash inflows resulting from direct-foreign-export sales and related costs will be adversely affected by changes in exchange rates. These contracts are not qualified for hedge accounting under FAS 133. Accordingly gains and losses for these forward-exchange contracts are recognized in earnings.

As of December 31, 2003 the provision for losses deriving from forward-exchange contracts amounted to approximately \$ 556,000 and is classified as accrued liability.

b. Concentrations of credit risks

At December 31, 2003 and 2002, the Company and its subsidiaries held cash and cash equivalents, most of which were deposited with major Israeli, European and U.S. banks. Substantially, all of the marketable securities held by the Company are debt securities of the U.S. Treasury and highly rated corporations. The Company considers the inherent credit risks to be remote.

Most of the subsidiaries' sales are made in the United States, Latin America, Europe and in the Far East, to a large number of customers. Consequently, the exposure to concentrations of credit risks relating to individual customer receivables is limited. The subsidiary performs ongoing credit evaluations of its customers and generally does not require collateral; however, with respect of certain sales to customers in emerging economies, the subsidiary requires letters of credit. The accounts include sufficient allowance for doubtful accounts.

SCITEX CORPORATION LTD.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (continued)

NOTE 13 - FINANCIAL INSTRUMENTS AND RISK MANAGEMENT (continued):

c. Fair value of financial instruments

The financial instruments of the Company and its subsidiaries consist mainly of cash and cash equivalents, short-term investments, long-term investments, current and long-term liabilities.

In view of their nature, the fair value of the financial instruments included in working capital is usually identical or close to their carrying amount. The fair value of long-term liabilities also approximates their carrying value, since they bear interest at rates close to the prevailing market rates.

NOTE 14 - SUPPLEMENTARY FINANCIAL STATEMENT INFORMATION:

Balance sheets:

	December 31	
	2003	2002
	\$ in thousands	
a. Allowance for doubtful accounts (as included in trade receivables) - the change in allowance for doubtful is composed as follows:		
Balance at beginning of year	2,957	1,620
Addition to allowance	1,233	1,507
Write-off of bad debts		(170)
	4,190	2,957
b. Inventories:		
Components of systems and materials	5,413	3,391
Work in process	1,183	1,517
Finished products	15,979	15,152
	22,575	20,060
c. Accrued and other liabilities:		
Payroll and related expenses	3,863	2,875
Accrued royalties and sales commissions	2,514	1,216
Deferred revenue	5,308	3,853
Provision for warranty*	2,293	2,018
Advances from customers	2,516	1,163
Other	9,183	5,826
	25,677	16,951
* The changes in the balance during the year:		
Balance at beginning of the year	2,018	2,577
Payments made under the warranty	(3,383)	(3,136)
Product warranties issued for new sales	3,658	3,589
Changes in accrual in respect of pre-existing warranties		(1,012)
Balance at end of year	2,293	2,018

SCITEX CORPORATION LTD.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (continued)

NOTE 14 - SUPPLEMENTARY FINANCIAL STATEMENT INFORMATION (continued):

d. Short-term credit and long-term loans:

1) Line of credit

In 2003 a subsidiary of the Company signed agreements with banks, which provided for a \$ 49 million revolving line of credit, short-term and long-term loans for various purposes.

Borrowings under the revolving line of credit and long-term loans bore interest of Libor + 1.1% to Libor + 2.3%.

The revolving line of credit the short-term and the long-term loans are secured by a negative pledge and restricted deposits of \$ 18,262,000 and require the subsidiary to maintain certain financial and other restrictive covenants.

The subsidiary is currently not in full compliance with one of the restrictive covenants and it is engaged in ongoing discussions with the banks for a temporary waiver of such covenant.

2) Short-term credit and loans

The balance as of December 31, 2003, mainly represents short term credit and loans of Scitex Vision, consisting of: \$ 26,450,000 short-term bank loans denominated in dollars and bearing interest of three month Libor + 1.1% to Libor + 2.25% per annum (as of December 31, 2003 - 2.3% to 3.5%, respectively); \$ 14,689,000 short-term bank loans denominated in Euro and bearing interest of one month Libor + 1.75% to Libor + 2.3% per annum (as of December 31, 2002 - 3.8% to 4.4%, respectively) and \$ 712,000 credit lines in various currencies. The short-term bank loan denominated in dollar and bearing interest of Libor +0.5% per annum in the amount of \$ 3,500,000 relates to SDC.

3) Current maturities of long-term loans (represent loans of Scitex Vision):

	2003	2002
	\$ in thousands	
Banks	1,633	5,248
Other	969	
	<u>2,602</u>	<u>5,248</u>

4) Long-term loans:

a) The long-term loans from banks represent loans of Scitex Vision and mature in the following years subsequent to December 31, 2003:

	2003	2002
	\$ in thousands	
Second year	1,928	3,438
Third year	1,252	2,003
Fourth year	1,252	52
Fifth year and thereafter	2,191	
	<u>6,623</u>	<u>5,493</u>

SCITEX CORPORATION LTD.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (continued)

NOTE 14 - SUPPLEMENTARY FINANCIAL STATEMENT INFORMATION (continued):

- b) The long-term loans from banks are denominated in dollars, bear interest of three month Libor + 1.75 % to Libor + 2.25 % per annum (as of December 31, 2003 - 2.9 % to 3.4 %, respectively).
- c) In 2000, ScitexVision entered into a collaboration agreement (hereafter - the agreement) with a European leading supplier (hereafter - the supplier) to the textile, paper and plastic printing industry, for developing inks for printing on textile. Pursuant to the agreement, the supplier shall pay ScitexVision certain royalties on sales of ink for use with ScitexVision's textile printing machines. As of December 31, 2003, no such sales have been made.

Following the agreement, Scitex Vision received from the supplier a long-term convertible loan of \$ 5 million.

The loan received on December 27, 2000, and bore 6% annual interest. The loan should have been interest free if the milestones described in the agreement were met.

According to the original terms of the loan, the loan and the accumulated interest might have been converted by the supplier, at any time during the last three months of the loan period, which ended on December 11, 2003, into ordinary shares of Scitex Vision at a conversion price based on the fair value of such shares, less 15%. According to the agreement if the supplier chooses to request the repayment of the loan, the repayment shall be made by setting-off the loan and any interest accrued thereon against royalties due to Scitex Vision in a subsequent period. The remainder of the loan, if it exists, shall be repaid in cash to the supplier.

On December 30, 2003 an addendum to the agreement was signed, according to which, the original terms of the loan were changed such that the principal of the loan is interest free and payable in four annual installments in the following years subsequent to December 31, 2003:

	December 31
	2003
	U.S. dollars in thousands
Current maturities	969
Second year	1,171
Third year	1,358
Fourth year	1,094
	3,623
	4,592

Scitex Vision has the right to offset royalties due to Scitex Vision against the amount due, on the next agreed installment.

As a result of the above-mentioned change in terms, the company has recorded the loan based on its present value (\$ 4,592,000) using the interest rate, which is applicable to such loans as of the date of change in terms. The difference between the present value and the nominal value of the loan, in the total amount of \$ 408,000, as well as all interest accrued through December 30, 2003, in the total amount of \$ 904,000, were credited to "financial expenses - net".

SCITEX CORPORATION LTD.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (continued)

NOTE 14 - SUPPLEMENTARY FINANCIAL STATEMENT INFORMATION (continued):

5) Convertible long-term loans from related parties:

In July 2003, two of the Company's shareholders granted to the Company's subsidiary convertible loans in the amount of approximately \$ 933,000, bearing interest equal to the greater of Libor + 1% (as of December 31, 2003 - 2.1%) or rate of change of the Israeli CPI per annum. The loans are payable in one installment at the end of a five year period if no conversion occurs before the end of the repayment period.

The loans and the accumulated interest may be converted into the ordinary shares of the subsidiary at any time with an exercise price of \$ 0.4052 per share, which equals the fair value of the subsidiary's ordinary shares at the date of grant of the loans.

According to the loans agreements, an automatic conversion shall occur upon certain events. In addition, the lenders were granted with warrants representing 25% of the loan amount, to purchase ordinary shares at an exercise price of \$ 0.4052 per share.

The Company recorded an original discount of \$ 98,500 in respect of the amounts allocated to these warrants out of the total above-mentioned loans of \$ 933,000. This amount is amortized to the interest expense over the maximum term of the loans, which is 5 years.

Pursuant to the conversion terms, whereby the lenders were guaranteed beneficial conversion features, the Company recorded an original discount of \$ 98,500, which represents the difference between the loan allocated amount and the amount payable. This amount is amortized to the interest expense over the maximum term of the loans, which is 5 years.

e. Note payable issued to an investee company

The note was denominated in dollars and was repaid in one payment on April 4, 2003.

SCITEX CORPORATION LTD.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (continued)

NOTE 14 - SUPPLEMENTARY FINANCIAL STATEMENT INFORMATION (continued):

Statements of operations:

		Year ended December 31		
		2003	2002	2001
		\$ in thousands		
f.	Research and development costs - net:			
	Expenses incurred	11,537	7,761	7,082
	Less – royalty-bearing participations from the Government of Israel	467	701	999
		<u>11,070</u>	<u>7,060</u>	<u>6,083</u>
g.	Selling, general and administrative expenses:			
	Selling*	20,192	19,812	21,277
	General and administrative**	15,147	13,581	16,376
		<u>35,339</u>	<u>33,393</u>	<u>37,653</u>
	* Including:			
	Advertising costs	609	420	410
	** Including:			
	Related party	518	445	92
	Net change in allowance for doubtful accounts and direct write-off of bad debts	698	1,507	1,082

h. Restructuring charges

1. Towards the end of 2001, a subsidiary implemented a restructuring plan, which was completed in 2001, in the form of abandonment of construction in progress, and accrued expenses accordingly. The expenses included the write-off of fixed assets in the amount of approximately \$ 500,000.
2. During 2003, a subsidiary implemented a restructuring plan in the form of reduction in work force, abandonment of leased premises and development of new combined information technology system, and accrued expenses accordingly. The expenses included mainly severance pay and other benefits to approximately 42 employees retiring from their employ in the amount of approximately \$ 130,000, costs related to the disposal of certain activities in the amount of approximately \$ 390,000, and costs related to the development of new combined information technology system in the amount of approximately \$ 500,000.

SCITEX CORPORATION LTD.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (continued)

NOTE 14 - SUPPLEMENTARY FINANCIAL STATEMENT INFORMATION (continued):

		Year ended December 31		
		2003	2002	2001
		\$ in thousands		
i. Financial expenses - net:				
Interest income		249	706	713
Gain on trading marketable securities - net		3		136
Interest expense on long-term loans				
from banks		(1,981)	(2,471)	(2,382)
from related parties		(20)		
from others		603		
Bank charges		(276)	(15)	(127)
Revaluation of long-term loan		408		
Other (including foreign exchange transaction losses - net)		(1,637)	(1,359)	(1,268)
		(2,651)	(3,139)	(2,928)
j. Other income (loss) - net:				
Loss from change in percentage of holding of an associated company				(4,408)
Write-down of available-for-sale securities			(22,283)	
Gain from sale of a portion in a subsidiary		3,774		
Share in beneficial conversion feature of convertible preferred shares issued by a subsidiary		(3,485)		
Write-off and write-down of investments in investee companies		(2,493)	(3,839)	(5,477)
Gain (loss) from sale of investments in associated and investee companies		2,822		(6,041)
Other		169	(148)	2,892
		787	(26,270)	(13,034)

k. Earnings income (loss) per share:

The net loss and the weighted average number of shares used in computation of basic and diluted earnings per share for the years ended December 31, 2003, 2002 and 2001 are as follows:

		Year ended December 31		
		2003	2002	2001
		\$ in thousands		
Net income (loss) used in the computation of basic and diluted earnings per share		1,387	(32,030)	(253,020)
Weighted average number of shares used in the computation of basic earnings (loss) per share		43,018	43,018	43,018
Add - net additional shares from the assumed exercise of the Company's stock options		-	-	-
Weighted average number of shares used in the computation of diluted earnings (loss) per share		43,018	43,018	43,018

SCITEX CORPORATION LTD.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (continued)

NOTE 15 - SEGMENT INFORMATION:

a. General:

Prior to the sale of SDP's operations, as described in note 1b, the Company had been operating in two reportable segments.

Following the transaction the Company operates only in the wide-format digital printing. The Subsidiaries, develop, manufacture and market industrial digital inkjet printing solutions mainly to the graphic arts, packaging and textile markets as well as related services and consumable products. As to the sale of the high-speed digital printing segment, classified as discontinued operation, see note 1b. In addition, the Company holds interest in other companies that develop digital printing solution to industrial applications.

b. Geographical information:

- 1) Following are data regarding revenues from external customers in respect of continuing operations, classified by geographical area based on the location of the customers:

	Year ended December 31		
	2003	2002	2001
	\$ in thousands		
North America (mostly USA)	19,650	17,814	18,690
Mexico	15,178	8,725	1,221
Europe:			
West	25,313	24,524	29,339
East	11,580	12,980	6,846
Far East	12,460	16,647	29,860
Other countries	18,699	4,971	5,662
	<u>102,880</u>	<u>85,661</u>	<u>91,618</u>

- 2) Following are data relating to property, plant and equipment, net, relating to continuing operations, by geographical area in which the assets are located:

	December 31		
	2003	2002	2001
	\$ in thousands		
Israel	6,154	2,985	2,772
North and South America	802	1,033	1,919
Europe	1,152	753	511
South Africa	949	1,265	1,024
Asia	147	38	
	<u>9,204</u>	<u>6,074</u>	<u>6,226</u>

SCITEX CORPORATION LTD.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (continued)

NOTE 16 - SUBSEQUENT EVENTS

- a. In January 2004, the Board of Directors of the Company announced a planned distribution to shareholders of approximately \$2.75 per share (a total of approximately \$118 million), applying a portion of the net proceeds from the SDP sale. Distributions to shareholders will be subject to applicable withholding taxes. The cash distribution to shareholders is subject to the satisfaction of certain conditions, including the approval of Company's shareholders and of the Israeli District Court. There can be no assurance if and when such conditions will be satisfied.
- b. In February 2004, the Company has entered into an agreement with the IRS to resolve a U.S. federal income tax audit of its U.S. subsidiaries for the years 1992 through 1996. Under the terms of the agreement, the Company agreed to an assessment of \$5.7 million of additional federal income taxes for these years to resolve the remaining proposed IRS assessment of an additional \$29.6 million of federal income taxes (as described in note 12h(2)).

When added to a previous "partial agreed assessment" by the IRS for \$10.6 million of federal income taxes, the Company's total additional federal income taxes for these years as a result of the IRS audit will be \$16.3 million. This amount does not include interest and additional state income taxes that will result from the agreement with the IRS. The Company is currently working to determine such amounts.

The Company had previously made advance payments to the IRS of \$21.5 million for federal income taxes relating to the audit period and had established reserves for additional liabilities arising out of the audit. At this stage, after initial review, the Company estimates that the final additional cash cost of the IRS audit (taking into consideration the \$16.3 million of assessment, state taxes and interest thereon, and after application of the \$21.5 million advance payment), will be in the range of \$7 to \$14 million.

The Company's management believes, based on its consultants' advice, that sufficient provision for this matter is included in accrued liabilities.

- c. In February 2004, the Company concluded a \$1.5 million investment in Jemtex in consideration for convertible debentures, which may be repaid at the option of Jemtex until the end of June 2004. Out of the above amount, \$0.45 million were transferred to Jemtex on account of the investment (see note 4a). Following this investment, the Company effectively holds approximately 73% of Jemtex' issued share capital on an "as converted" basis.

**Report of Independent Accountants on
Financial Statement Schedule**

To the Board of Directors of
Scitex Corporation Limited.

Our audits of the consolidated financial statements referred to in our report dated March 1, 2004 appearing in the 2003 Annual Report to the Shareholders of Scitex Corporation Limited also included an audit of the Financial Statement Schedule II –Valuation and Qualifying Accounts – listed in this Form 20-F. In our opinion, the financial statement schedule presents fairly, in all material respects, the information set forth therein when read in conjunction with the related consolidated financial statements.

/s/ Kesselman & Kesselman

Tel-Aviv, Israel
March 1, 2004

Kesselman & Kesselman
Certified Public Accountants (Isr.)

SCITEX CORPORATION LTD.
SCHEDULE II – VALUATION AND QUALIFYING ACCOUNTS
Three years ended December 31, 2003
(U.S. \$ in thousands)

Column A	Column B	Column C	Column D	Column E
Description	Balance at beginning of period	Additions charged to cost and expense	Deductions from reserves	Balance at end of period
Allowance for doubtful accounts:				
Year ended December 31, 2003	2,957	1,233	-, -	4,190
Year ended December 31, 2002	1,620	1,507	(170)	2,957
Year ended December 31, 2001	1,098	1,082	(560)	1,620
Valuation allowance for deferred tax assets:				
Year ended December 31, 2003	123,253	61,731	-, -	184,984
Year ended December 31, 2002	94,877	28,376	-, -	123,253
Year ended December 31, 2001	18,028	76,849	-, -	94,877
Provision for warranty:				
Year ended December 31, 2003	2,018	3,658	(3,383)	2,293
Year ended December 31, 2002	2,577	2,577	(3,136)	2,018
Year ended December 31, 2001	1,738	4,008	(3,169)	2,577

JEMTEX INK JET PRINTING LTD.

FINANCIAL STATEMENTS AS OF DECEMBER 31, 2003

JEMTEX INK JET PRINTING LTD.
FINANCIAL STATEMENTS AS OF DECEMBER 31, 2003

IN U.S. DOLLARS

TABLE OF CONTENTS

	Page
Report of Independent Auditors	1
Balance Sheets	2 - 3
Statements of Operations	4
Statements of Changes in Shareholders' Deficiency	5
Statements of Cash Flows	6
Notes to the Financial Statements	7 - 17

REPORT OF INDEPENDENT AUDITORS

To the shareholders of

JEMTEX INK JET PRINTING LTD.

We have audited the accompanying balance sheet of Jemtex Ink Jet Printing Ltd. ("the Company") as of December 31, 2003 and the related statement of operations, changes in shareholders' deficiency and cash flow for the year then ended. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by the company's management, as well as evaluating the overall financial statement presentation. We believe that our audits and provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Company as of December 31, 2003 and the results of its operation and its cash flow for the year then ended, in conformity with accounting principles generally accepted in the United States.

The accompanying financial statements have been prepared assuming that the Company will continue as a going concern. As discussed in Note 1B, to the financial statements, the Company has suffered recurring losses from operations and as of December 31, 2003 has a shareholders' deficiency of approximately \$ 1.9 million. These factors, among others described in Note 1B raise substantial doubt about the Company's ability to continue as a going concern. Management's plans in regard to these matters are also described in Note 1B. The financial statements do not include any adjustments to reflect the possible future effects on the cover ability and classification of assets or the amounts and classification of liabilities that might result from the outcome of this uncertainty.

Tel-Aviv, Israel
February 29, 2004

BY: /S/ ZIV HAFT

ZIV HAFT
a member of BDO
Certified Public Accountants (Isr.)

JEMTEX INK JET PRINTING LTD.**BALANCE SHEETS****(In U.S. dollars, except share and per share data)**

		December 31	
	Note	2003	
ASSETS			
CURRENT ASSETS:			
Cash and cash equivalents	3	\$	292,879
Restricted cash			-
Receivables and prepayments	4		182,285
			<u>475,164</u>
EQUIPMENT:			
Cost	5		402,448
Less - accumulated depreciation			262,600
			<u>139,848</u>
LEASE DEPOSITS			
			<u>36,217</u>
SEVERANCE PAY FUND			
			<u>427,671</u>
Total assets		\$	1,078,900

The accompanying notes are an integral part of the financial statements.

JEMTEX INK JET PRINTING LTD.

		December 31
	Note	2003
LIABILITIES AND SHAREHOLDERS' DEFICIENCY		
CURRENT LIABILITIES:		
Accounts payable and accrued expenses	6	\$ 666,979
Convertible promissory note	8	-
Deferred revenues		-
		<u>666,979</u>
LONG-TERM LIABILITIES:		
Long-term loan	7	580,184
Convertible promissory notes	8	1,256,330
Accrued severance pay		498,551
		<u>2,335,065</u>
Total liabilities		<u>3,002,044</u>
COMMITMENTS AND CONTINGENT LIABILITIES		
	9	
SHAREHOLDERS' DEFICIENCY:		
Share capital -	10	
Ordinary shares of NIS 0.01 par value:		
Authorized: 11,831,100 shares as of December 31, 2003;		
Issued: 2,700,100 shares; Outstanding - 27,001 shares		86
Series A preferred shares of NIS 0.01 par value:		
Authorized and issued: 1,510,800 shares as of December 31, 2003;		
Outstanding - 15,108 shares		40
Series B preferred shares of NIS 0.01 par value:		
Authorized: 1,590,600 shares as of December 31, 2003;		
Issued: 954,388 shares as of December 31, 2003; Outstanding - 9,544 shares		20
Deferred shares of NIS 0.01 par value:		
Authorized, issued and outstanding: 67,500 shares		225
Additional paid-in capital		10,477,183
Accumulated deficit		(12,400,698)
Total shareholders' deficiency		<u>(1,923,144)</u>
Total liabilities and shareholders' deficiency		<u>\$ 1,078,900</u>

February 29, 2004

Date of approval of the
financial statementsDr. Meyer Weksler
Managing DirectorYahel Shachar
Member of the
Board of Directors

JEMTEX INK JET PRINTING LTD.
STATEMENTS OF OPERATIONS
(In U.S. dollars)

		Year ended
	Note	31.12.2003
Revenues		\$ 186,385
Costs and expenses:		
Product development costs, net	11	2,413,240
Marketing, general and administrative expenses	12	589,157
		<hr/>
Operating loss		(2,816,012)
Financial expenses, net		(9,755)
		<hr/>
Net loss		\$ (2,825,767)
		<hr/>

The accompanying notes are an integral part of the financial statements.

JEMTEX INK JET PRINTING LTD.
STATEMENTS OF CHANGES IN SHAREHOLDERS' DEFICIENCY
(In U.S. dollars, except share data)

	Ordinary shares		Series A Preferred shares		Series B Preferred shares		Deferred shares		Additional		
	NIS 0.01 par value		NIS 0.01 par value		NIS 0.01 par value		NIS 0.01 par value		paid-in	Accumulated	
	Shares	Amount	Shares	Amount	Shares	Amount	Shares	Amount	capital	deficit	Total
Balance as of January 1, 2003	2,700,100	86	1,510,800	37	954,388	20	67,500	225	8,877,186	(9,574,931)	(697,377)
Receipt on account of Series B Preferred shares issued	-	-	-	-	-	3	-	-	1,599,997	-	1,600,000
Net loss	-	-	-	-	-	-	-	-	-	(2,825,767)	(2,825,767)
Balance as of December 31, 2003	2,700,100	\$ 86	1,510,800	\$ 37	954,388	\$ 23	67,500	\$ 225	\$10,477,183	\$(12,400,698)	\$(1,923,144)

The accompanying notes are an integral part of the financial statements.

JEMTEX INK JET PRINTING LTD.
STATEMENTS OF CASH FLOWS
(In U.S. dollars)

	Year ended 31.12.2003
Cash flows from operating activities:	
Net loss	\$ (2,825,767)
Adjustments to reconcile net loss to net cash used in operating activities:	
Depreciation	58,629
Interest accrued on long-term loans	17,241
Changes in assets and liabilities:	
Accrued severance pay, net	15,044
Decrease (increase) in receivables and prepayments	106,326
Decrease in inventories	-
Decrease (increase) in lease deposits	11,575
Decrease in accounts payables, accrued expenses and deferred revenues	(155,271)
Net cash used in operating activities	(2,772,223)
Cash flows from investing activities:	
Acquisition of equipment	(17,242)
Decrease in restricted cash	50,100
Net cash used in investing activities	32,858
Cash flows from financing activities:	
Proceeds from shares issued	1,350,000
Proceeds from convertible promissory notes	1,249,917
Net cash provided by financing activities	2,599,917
Decrease in cash and cash equivalents	(139,448)
Cash and cash equivalents at the beginning of the year	432,327
Cash and cash equivalents at the end of the year	\$ 292,879
Non-cash activity:	
Conversion of convertible promissory note to additional paid-in capital	\$ 250,000

The accompanying notes are an integral part of the financial statements.

JEMTEX INK JET PRINTING LTD.
NOTES TO THE FINANCIAL STATEMENTS
(In U.S. dollars)

NOTE 1 – GENERAL:

- A. The Company commenced its operations in October 1995 and is engaged in the development of products in the field of ink jet printing technology.
- B. As of December 31, 2003, the Company has an accumulated deficit of approximately \$ 12,401 thousand and shareholders' deficiency of approximately \$ 1,923 thousand. In 2003, the Company has negative cash flows from operations in the amount of approximately \$ 2,722 thousand. The Company does not yet generate sufficient revenues from its operations to fund its activities and is therefore dependent on additional financing from outside services. These factors raise substantial doubt about the Company's ability to continue as a going concern.

During 2003, a term sheet was signed with the Company's principal shareholder, whereby the shareholder committed to provide \$ 1.5 million to the Company in the form of convertible promissory notes. The closing of the said agreement was at February 11, 2004. Through February all the proceeds were transferred to the company (see Note 8).

NOTE 2 – SIGNIFICANT ACCOUNTING POLICIES:

The financial statements have been prepared in accordance with accounting principles generally accepted in the United States ("GAAP"). The significant accounting policies, followed in the preparation of the financial statements, on a consistent basis, are:

A. Use of estimates:

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

JEMTEX INK JET PRINTING LTD.
NOTES TO THE FINANCIAL STATEMENTS
(In U.S. dollars)

NOTE 2 – SIGNIFICANT ACCOUNTING POLICIES (Cont.):

B. Financial statements in U.S. dollars:

The accompanying financial statements have been prepared in U.S. dollars, as the currency of the primary economic environment in which the operations of the Company are conducted is the U.S. dollar. Substantially, all of the Company's sales are made outside Israel and are made in U.S. dollars. A substantial portion of the costs of the Company are incurred in U.S. dollars. Thus, the functional and reporting currency of the Company is the U.S. dollar.

Transactions and balances originally denominated in U.S. dollars are presented at their original amounts. Transactions and balances in other currencies are remeasured into U.S. dollars, in accordance with the principles prescribed in Statement of Financial Accounting Standards ("SFAS") No. 52 of the Financial Accounting Standards Board ("FASB") of the United States. Accordingly, items have been remeasured as follows:

Monetary items – at the current exchange rate at the balance sheet date.

Non-monetary items – at historical exchange rates.

Expenditure items – at the exchange rates current as of the date of recognition of those items (excluding depreciation and other items deriving from non-monetary items).

All exchange gains and losses from the aforementioned remeasurement are reflected in the statement of operations in financing expenses, and were immaterial to date.

The representative rate of exchange of the New Israeli Shekel (NIS) at December 31, 2003 was \$1.00 = NIS 4.379 (2002 = NIS 4.737).

C. Cash and cash equivalents:

Cash and cash equivalents include highly liquid investments including deposits in banks with original maturities of three months or less.

D. Equipment:

Equipment is stated at cost, net of accumulated depreciation and amortization. Depreciation and amortization are computed by the straight-line method over the estimated useful lives of the assets (three to ten years).

JEMTEX INK JET PRINTING LTD.
NOTES TO THE FINANCIAL STATEMENTS
(In U.S. dollars)

NOTE 2 – SIGNIFICANT ACCOUNTING POLICIES (Cont.):

E. Product development expenses:

Product development expenses, net of participations by the Office of the Chief Scientist of the Ministry of Industry and Trade of the State of Israel, are charged to operations, as incurred.

F. Fair value of financial instruments:

The carrying value of all financial instruments potentially subject to valuation risk (principally consisting of cash and cash equivalents) approximate their fair value.

G. Concentrations of credit risk:

Financial instruments that potentially subject the Company to concentrations of credit risk consist principally of cash and cash equivalents.

Cash and cash equivalents are invested in major banks in Israel. Management believes that the financial institutions that hold the Company's investments are financially sound and, accordingly, minimal credit risk exists with respect to these investments.

The Company has no off-balance-sheet concentration of credit risk such as foreign exchange contracts, option contracts or other foreign hedging arrangements.

H. Severance pay:

The liability for severance pay is calculated pursuant to Israeli severance pay law based on the most recent salary of the Israeli employees multiplied by the number of years of employment, as of the balance sheet date. Employees are entitled to one month's salary for each year of employment or a portion thereof. The Company's liability for all of its employees is fully provided by monthly deposits with insurance policies and by an accrual. The value of these policies is recorded as an asset in the Company's balance sheet. The deposited funds include profits accumulated up to the balance sheet date. The deposited funds may be withdrawn only upon the fulfillment of the obligation pursuant to Israeli severance pay law or labor agreements. The value of the deposited funds is based on the cash surrendered value of these policies, and include immaterial profits.

Severance expense, net for the years ended December 31, 2003 \$15,044.

JEMTEX INK JET PRINTING LTD.
NOTES TO THE FINANCIAL STATEMENTS
(In U.S. dollars)

NOTE 2 – SIGNIFICANT ACCOUNTING POLICIES (Cont.):

I. Impairment of long-lived assets:

The Company applies SFAS No. 144, “Accounting for the Impairment or Disposal of Long-Lived Assets” (“SFAS 144”). According to SFAS 144, long-lived assets are reviewed for impairment when events or changes in circumstances indicate that the carrying amount of such assets may not be recoverable. Determination of recoverability is based on an estimate of undiscounted future cash flows resulting from the use of the asset and its eventual disposition. In the event that such cash flows are not expected to be sufficient to recover the carrying amount of the assets, the assets are written down to their estimated fair values.

J. Stock-based compensation:

The Company has elected to follow Accounting Principles Board Opinion No. 25 (“APB No. 25”), “Accounting for Stock Issued to Employees” and the FASB Interpretation No. 44, “Accounting for Certain Transactions Involving Stock Compensation” in accounting for its employee stock option plans. According to APB No. 25, compensation expense is measured under the intrinsic value method, whereby compensation expense is equal to the excess, if any of the fair value of the share at the date of grant of the award over the exercise price. Compensation expense is recorded over the vesting period on a straight-line basis. The Company provides the disclosures required by Statement of Financial Accounting Standard No. 123, “Accounting for Stock-Based Compensation” (“SFAS No. 123”) and SFAS No. 148, “Accounting for Stock – Based Compensation – Transition and Disclosure”.

Under SFAS No. 123 the fair value of each option grant is estimated on the date of grant using the minimum value option-pricing model with the following weighted-average assumptions used for grants in 2003; (1) expected life of the option of 2.5 years; (2) dividend yield of 0%; (3) risk-free interest rate of 1%. Had compensation cost for the Company’s stock option plans been determined based on the fair value at the grant dates for all awards, the effect on the Company’s net loss would have been immaterial.

K. Revenue recognition:

Revenues from product sales are recognized upon shipment when no right of return exists, or, if applicable, and the end of the evaluation period, and when collectibility is probable.

JEMTEX INK JET PRINTING LTD.
NOTES TO THE FINANCIAL STATEMENTS
(In U.S. dollars)

NOTE 2 – SIGNIFICANT ACCOUNTING POLICIES (Cont.):

L. Income taxes:

The Company accounts for income taxes in accordance with Statement of Financial Accounting Standard No. 109, "Accounting for Income Taxes" ("SFAS No. 109"). SFAS No. 109 prescribes the use of the liability method whereby deferred tax asset and liability account balances are determined based on differences between financial reporting and tax bases of assets and liabilities and are measured using the enacted tax rates and laws that will be in effect when the differences are expected to reverse. The Company provides a valuation allowance, if necessary, to reduce deferred tax assets to their estimated realizable value.

NOTE 3 – CASH AND CASH EQUIVALENTS:

	Interest rate	December 31 2003
	%	
Short-term bank deposits:		
In NIS	3.9	\$ 146,168
In U.S. dollar		-
Cash		146,711
		<u>\$ 292,879</u>

NOTE 4 – RECEIVABLES AND PREPAYMENTS:

	December 31 2003
Office of the Chief Scientist	\$ 108,276
Government authorities	24,676
Employees *	33,492
Other	15,841
	<u>\$ 182,285</u>

*Including \$ 17,127 to shareholder, who is also an employee.

JEMTEX INK JET PRINTING LTD.
NOTES TO THE FINANCIAL STATEMENTS
(In U.S. dollars)

NOTE 5 – EQUIPMENT:

	Equipment	Computers	Leasehold improvements	Total
Cost:				
Balance as of January 1, 2003	\$ 120,831	\$ 200,621	\$ 63,754	\$ 385,206
Additions	4,564	12,678	-	17,242
Balance as of December 31, 2003	125,395	213,299	63,754	402,448
Accumulated depreciation:				
Balance as of January 1, 2003	62,846	126,845	14,280	203,971
Additions	12,049	40,206	6,374	58,629
Balance as of December 31, 2003	74,895	167,051	20,654	262,600
Depreciated cost as of December 31, 2003	\$ 50,500	\$ 46,248	\$ 43,100	\$ 139,848
Depreciated cost as of December 31, 2002	\$ 57,985	\$ 73,776	\$ 49,474	\$ 181,235
Annual rates of depreciation	7%-20%	20%-33%	10%-14%	

NOTE 6 – ACCOUNTS PAYABLE AND ACCRUED EXPENSES:

	December 31 2003
Suppliers	\$ 224,507
Employees and related expenses	174,300
Accrued vacation	214,125
Other	54,047
	\$ 666,979

JEMTEX INK JET PRINTING LTD.
NOTES TO THE FINANCIAL STATEMENTS
(In U.S. dollars)

NOTE 7 – LONG-TERM LOAN:

December 31	
2003	
<hr/>	
\$	580,184
<hr/>	

A loan of \$ 500,000 is due to the former parent company. The loan bears interest at the rate of LIBOR and is repayable out of future net profits in 10 annual installments of \$ 50,000, including the accrued interest, but not in excess of 10% of the Company's annual net income.

NOTE 8 – CONVERTIBLE PROMISSORY NOTES:

In August 2003, the Company issued to a shareholder a convertible promissory note in the amount of \$ 799,917, bearing interest at the rate of LIBOR +0.75%. The note is due on August 31, 2007, and is convertible at the option of the holder, at any time during the term of the note and the accrued interest, into Preferred B shares, representing a price per share of \$ 2.51467, and subject to certain adjustments in accordance with the Share Purchase Agreement (dated December 9, 2002) with the same shareholder. According to the agreement and upon its execution, a warrant to purchase 318,100 Preferred B shares of the Company was cancelled (see also Note 10c).

In addition, in 2003, the Company issued the same shareholder promissory notes in the amount of \$ 450,000 which are deemed an advance to the Company on account of proceeds to be invested by the shareholder ("the investment agreement") based on a term sheet signed between the shareholder and the Company (see Note 1b).

On February 11, 2004 the investment agreement for a total of \$1,500,000 was signed and accordingly the Company issued to the shareholder an additional promissory note in the amount of \$ 1,050,000. The amount of the convertible promissory notes will bear annual interest of LIBOR+2%, mature five years from date of issuance and will be prepayable at the sole discretion of the Company until June 30, 2004. The notes will be convertible to Series C Preferred shares, commencing July 1, 2004 and ending at the maturity date at a price per share of \$ 0.60.

JEMTEX INK JET PRINTING LTD.
NOTES TO THE FINANCIAL STATEMENTS
(In U.S. dollars)

NOTE 9 – COMMITMENTS AND CONTINGENT LIABILITIES:

- A. The Company's plant is located in the Lod North Industrial Zone, Israel. The plant is leased for a period of five years ending on June 30, 2005 with options to extend the lease for up to additional four years. Minimum future rental payments expected under operating leases in effect as of December 31, 2003, are approximately as follows:

2004	\$	192,000
2005		192,000
		<hr/>
	\$	384,000
		<hr/>

- B. In connection with its research and development, the Company received and accrued participation payments from the Office of the Chief Scientist of the Ministry of Industry and Trade in Israel in the total amount of approximately \$ 2,955,000. In return for the Government of Israel's participation, the Company is committed to pay royalties at a rate of 3% – 5% of sales of the developed products, up to 100% of the amount of grants received (for grants received under programs approved subsequent to January 1, 2000 – 100% plus interest at LIBOR). The Company's total commitment for royalties payable with respect to future sales, based on Government participations received or accrued, net of royalties paid or accrued, totaled approximately \$ 2,937,000, as of December 31, 2003.
- C. A venture capital fund ("the VC") has negotiated in 1999 to invest in the Company. No agreement was reached and no investment was executed by the VC. Following the failed negotiations, the VC has demanded damages and other demands of the Company. The Company rejects these demands and believes they are with no basis whatsoever, and accordingly no provision for these demands is included in these financial statements.
- D. The company has a lien on some office equipment in favor of the equipments supplier in the amount of \$ 15,800.

JEMTEX INK JET PRINTING LTD.
NOTES TO THE FINANCIAL STATEMENTS
(In U.S. dollars)

NOTE 10 – SHAREHOLDERS’ DEFICIENCY:

- A. In 2003, the Company adopted an Option Plan which provides for the grant by the Company of options to purchase up to an aggregate of 426,100 Ordinary shares to officers, directors key employees, etc. The plan will expire eight years after its adoption unless terminated earlier by the Board of Directors.

As of December 31, 2003, the Company granted certain employees 176,200 options (No options were granted in previous years). The options may be exercised over a period of eight years from the date of grant, at an exercise price of \$ 2.26. The vesting period of the options is up to four years. No compensation expense was recognized, as the exercise price on the date of grant was greater than the market price of the underlying shares.

- B. In December 2002, the Company issued 954,400 Series B Preferred Shares to a shareholder for an aggregate purchase price of \$ 2.4 million, which shall be paid in three equal installments. The first installment of the purchase price of \$ 800,000 was paid in December 2002. The remaining two installments of \$ 800,000 were received through 2003. As additional consideration for the shareholder’s investment, the Company granted two warrants to purchase 318,100 Preferred B shares of the Company (each) at an exercise price of \$ 2.514 per share exercisable until January 2, 2004 and March 31, 2005, respectively. The first warrant that was exercisable until January 2, 2004, was cancelled.

In addition, the Company issued to the shareholder a convertible, promissory note in the amount of \$ 250,000, bearing interest at the rate of LIBOR + 1.75%. The note was canceled as part of the payment of the third installment for the Series B preferred shares, as noted above.

- C. In June 2003, the Company increased its registered share capital and issued bonus shares to each shareholder of the Company, such that for each share (excluding the deferred shares), 99 additional shares of the same class of share was issued for no additional consideration. All shares (excluding deferred shares) have been adjusted to give retroactive effect to this issuance for all periods presented.

JEMTEX INK JET PRINTING LTD.
NOTES TO THE FINANCIAL STATEMENTS
(In U.S. dollars)

NOTE 11 – PRODUCT DEVELOPMENT COSTS, NET:

	Year ended 31.12.2003
Salaries and related expenses (1)	\$ 1,846,206
Subcontractors	195,477
Materials	213,925
Rent and office maintenance	190,800
Vehicle expenses	227,843
Patent applications	29,412
Depreciation	50,442
Other	87,515
	<hr/> 2,841,620
Less - participations by the Office of the Chief Scientist	428,380
	<hr/> \$ 2,413,240
	<hr/>
(1) Including to shareholders	\$ 153,650
	<hr/>

NOTE 12 - MARKETING, GENERAL AND ADMINISTRATIVE EXPENSES:

	Year ended 31.12.2003
Salaries and related expenses (1)	\$ 306,068
Professional fees	79,786
Vehicle expenses	29,086
Depreciation	8,187
Rent and office maintenance	34,712
Other	154,002
	<hr/> 608,841
Less - participation by the Fund for the Encouragement of Marketing Activity	22,684
	<hr/> \$ 589,157
	<hr/>
(1) Including to shareholders	\$ 155,386
	<hr/>

JEMTEX INK JET PRINTING LTD.
NOTES TO THE FINANCIAL STATEMENTS
(In U.S. dollars)

NOTE 13 - TAXES ON INCOME:

- A.** The Company is subject to the Income Tax Law (Inflationary Adjustments), 1985. Under this law, taxable income is computed based on the changes in Israel's Consumer Price Index.
- B.** Tax benefits under the Law for the Encouragement of Capital Investments, 1959:
- The Company has received the approval of the Investment Center for an investment program for the Lod facility, qualifying for "alternative benefits" under the Law for the Encouragement of Capital Investments, 1959 ("the Law"). These benefits provide the Company with an exemption from income taxes on income from its "Approved Enterprise", for a period of two years followed by reduced tax rates of 25% for an additional period of five years from the first year in which there is taxable income, up to the earlier of twelve years from the time the facility was first made operational, or fourteen years from the issuance of the letter of approval. The investment program was completed and a final implementation report was submitted to the Investment Center.
- C.** As of December 31, 2003, the Company has a tax loss carryforward of approximately \$ 11.6 million. The difference between the reported loss and the tax loss carryforward emanates mainly from nondeductible expenses.
- D.** The Company has received final tax assessments up to 1998.

Jemtex Ink Jet Printing Ltd.

FINANCIAL STATEMENTS
as of December 31, 2002
(UNAUDITED)

FINANCIAL STATEMENTS AS OF DECEMBER 31, 2002
(UNAUDITED)

C O N T E N T S

	<u>Page</u>
FINANCIAL STATEMENTS	
Balance Sheets	H-2
Statements of Operations	H-3
Statements of Changes in Shareholders' Deficiency	H-4
Statements of Cash Flows	H-5
Notes to the Financial Statements	H-6 - H-13

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Jemtex Ink Jet Printing Ltd.

BALANCE SHEETS

In U.S. dollars (except share data)

	Note	December 31	
		2002	2001
Current Assets			
Cash and cash equivalents	(3)	432,327	785,851
Restricted cash	(3)	50,100	54,526
Receivables and prepayments	(4)	288,611	192,442
Inventories		-	116,383
		<u>771,038</u>	<u>1,149,202</u>
Fixed Assets	(5)		
Cost		385,206	337,436
Less - accumulated depreciation		203,971	150,372
		<u>181,235</u>	<u>187,064</u>
Other Assets		47,792	45,366
		<u>47,792</u>	<u>45,366</u>
Total assets		<u>1,000,065</u>	<u>1,381,632</u>
Current Liabilities			
Payables and accrued expenses	(6)	728,743	608,811
Convertible promissory note	(8)	252,561	-
Deferred revenues		88,385	250,000
		<u>1,069,689</u>	<u>858,811</u>
Long-term Liabilities			
Long-term loan	(7)	571,917	562,949
Accrued severance pay, net		55,836	53,134
		<u>627,753</u>	<u>616,083</u>
Total liabilities		<u>1,697,442</u>	<u>1,474,894</u>
Shareholders' Deficiency			
Share capital	(8)		
Ordinary shares of NIS 0.01 par value: Authorized - 2,701,486 shares, (2001 - 2,717,392); Issued and outstanding - 27,001 shares in 2002 and 2001, respectively		86	86
Series A preferred shares of NIS 0.01 par value: Authorized, issued and outstanding - 15,108 shares (2001 - same)		37	37
Series B preferred shares of NIS 0.01 par value: Authorized 15,906 shares (2001-0); Issued and outstanding 9,544 shares (2001-0)		20	-
Deferred shares of NIS 0.01 par value: Authorized, Issued and outstanding - 67,500 shares (2001 - same)		225	225
Additional paid-in capital		8,877,186	7,332,382
Accumulated deficit		<u>(9,574,931)</u>	<u>(7,425,992)</u>
Total shareholders' deficiency		<u>(697,377)</u>	<u>(93,262)</u>
Total liabilities and shareholders' deficiency		<u>1,000,065</u>	<u>1,381,632</u>

Dr. Meyer Weksler
Managing Director

Yeoshua Agassi
Member of the Board of

Directors

Tel Aviv, February 5, 2003

The accompanying notes are an integral part of these statements

H - 2

Jemtex Ink Jet Printing Ltd.

STATEMENTS OF OPERATIONS

In U.S. dollars

	Note	For the year ended December 31	
		2002	2001
Revenues		1,281,115	1,305,060
Cost of Revenues	(9)	845,913	533,340
Gross profit		435,202	771,720
Operating expenses			
Research and development expenses, net	(10)	2,070,967	1,979,538
Marketing, general and administrative expenses	(11)	497,248	463,573
Total operating expenses		2,568,215	2,443,111
Operating loss		(2,133,013)	(1,671,391)
Financing expenses, net		(15,926)	(75,089)
Gain on agreement with former parent company	(7)	-	224,324
Net loss		(2,148,939)	(1,522,156)

The accompanying notes are an integral part of these statements

Jemtex Ink Jet Printing Ltd.

STATEMENTS OF CHANGES IN SHAREHOLDERS' DEFICIENCY

In U.S. dollars (except share data)

	Ordinary Shares		Series A Preferred Shares		Series B Preferred Shares		Deferred Shares		Share premium	Perpetual note	Accumulated deficit	Total
	NIS 0.01 par value Shares	Amount	NIS 0.01 par value Shares	Amount	NIS 0.01 par value Shares	Amount	NIS 0.01 par value Shares	Amount				
Balance as of December 31, 2000	27,001	86	15,108	37	-	-	67,500	225	2,834,663	2,500,000	(5,903,836)	(568,825)
Perpetual note reclassified	-	-	-	-	-	-	-	-	2,500,000	(2,500,000)	-	-
Payment received on behalf of Series A Preferred shares issued	-	-	-	-	-	-	-	-	1,997,719	-	-	1,997,719
Net loss	-	-	-	-	-	-	-	-	-	-	(1,522,156)	(1,522,156)
Balance as of December 31, 2001	27,001	86	15,108	37	-	-	67,500	225	7,332,382	-	(7,425,992)	(93,262)
Payment received on behalf of Series A Preferred shares issued	-	-	-	-	-	-	-	-	800,000	-	-	800,000
Series B Preferred shares issued	-	-	-	-	9,544	20	-	-	744,804(*)	-	-	744,824
Net loss	-	-	-	-	-	-	-	-	-	-	(2,148,939)	(2,148,939)
Balance as of December 31, 2002	27,001	86	15,108	37	9,544	20	67,500	225	8,877,186	-	(9,574,931)	(697,377)

(*) Net of issuance expenses of \$55,176 – see Note 8.

The accompanying notes are an integral part of these statements

Jemtex Ink Jet Printing Ltd.

Notes to the Financial Statements

In U.S. dollars

	For the year ended December 31	
	2002	2001
Cash flows from operating activities		
Net loss	(2,148,939)	(1,522,156)
Adjustments to reconcile net loss to net cash used in operating activities:		
Depreciation	53,599	46,168
Interest accrued on long-term loans	8,968	53,393
Gain on agreement with former parent company	-	(224,324)
Loss on sale of fixed assets	-	7,268
Changes in assets and liabilities:		
Accrued severance pay	2,702	431
Decrease (increase) in restricted cash	4,426	(4,526)
Decrease (increase) in receivables and prepayments	(96,169)	21,071
Decrease (increase) in inventories	116,383	(41,870)
Increase in other assets	(2,426)	(22,887)
Decrease in payables, accrued expenses and deferred revenues	(39,122)	(469,829)
Net cash used in operating activities	<u>(2,100,578)</u>	<u>(2,157,261)</u>
Cash flows from investing activities		
Acquisition of fixed assets	(47,770)	(81,562)
Proceed from sale of fixed assets	-	40,365
Net cash used in investing activities	<u>(47,770)</u>	<u>(41,197)</u>
Cash flows from financing activities		
Proceeds from shares issued, net	1,544,824	1,997,719
Convertible loan	250,000	-
Short-term bank credit	-	(22,477)
Long-term liabilities	-	(165,000)
Net cash provided by financing activities	<u>1,794,824</u>	<u>1,810,242</u>
Decrease in cash and cash equivalents	<u>(353,524)</u>	<u>(388,216)</u>
Cash and cash equivalents at beginning of year	<u>785,851</u>	<u>1,174,067</u>
Cash and cash equivalents at end of year	<u>432,327</u>	<u>785,851</u>

The accompanying notes are an integral part of these statements

Jemtex Ink Jet Printing Ltd.

Notes to the Financial Statements

In U.S. dollars

Note 1 - GENERAL

- A. The Company commenced its operations in October 1995 and is engaged in the development of products in the field of ink jet printing technology.
- B. The currency of the primary economic environment in which the operations of the Company are conducted is the U.S. dollar. Accordingly, the functional currency of the Company is the U.S. dollar.
- C. As of December 31, 2002, the Company has an accumulated deficit of approximately \$9.6 million and shareholders' deficiency of approximately \$0.7 million. The Company does not yet generate sufficient revenues from its operations to fund its activities and is therefore dependent on additional financing. In December 2002, the Company raised additional capital from Scitex Corporation Ltd. (a major shareholder), and has issued its warrants which, if exercised, will provide additional funding to the Company (see Note 8C). As a result, management believes that there will be funds available to the Company to enable it to finance its operations at least through December 31, 2003. However, there is no assurance that sufficient funds will be available.
- D. The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that effect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of financial statements, and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from these estimates.

The accompanying notes are an integral part of these statements

Jemtex Ink Jet Printing Ltd.

Notes to the Financial Statements (Cont.)

In U.S. dollars

Note 2 - SIGNIFICANT ACCOUNTING POLICIES

The financial statements are prepared under Israeli Generally Accepted Accounting Principles (GAAP) in Israel. As far as the Company's results of operations are concerned, such GAAP are practically identical to U.S. GAAP. The significant accounting policies, applied in the preparation of the financial statements on a consistent basis, are:

A. Cash and Cash Equivalents

All highly liquid investments with an original maturity of three months or less are considered cash equivalents.

B. Inventories

Inventories are valued at the lower of cost or market. Cost is determined on the "first-in, first-out" method.

C. Fixed Assets

Fixed assets are stated at cost. Depreciation is calculated by the straight-line method over the estimated useful life of the assets.

D. Foreign Currency Translation

Monetary assets and liabilities denominated in Israeli shekels and in non-U.S. dollar currencies are translated into U.S. dollars at the rate of exchange on balance sheet date. Nonmonetary assets and liabilities are translated using historical exchange rates. Expense items are translated at exchange rates applicable at the date of the transaction. The rate of exchange of the U.S. dollar at balance sheet date was U.S.\$1= NIS 4.737 (2001 - NIS 4.416).

E. Revenue Recognition

Revenues, mainly from joint development projects, are recognized when the Company has achieved the milestone, collectibility is probable, the fee is fixed or determinable and persuasive evidence of an arrangement exists.

F. Research and Development Expenses

Research and development expenses, net of participations by the Chief Scientist of the State of Israel, are charged to operations as incurred.

Jemtex Ink Jet Printing Ltd.

Notes to the Financial Statements (Cont.)

In U.S. dollars

Note 3 - CASH AND CASH EQUIVALENTS

	Interest rate (*)	December 31	
		2002	2001
Short-term bank deposits:			
NIS	8.7	312,856	-
In U.S. dollar	1.0	100,000	613,207
Cash		19,471	172,644
		<u>432,327</u>	<u>785,851</u>

(*) As of December 31, 2002.

The Company has registered floating charge on its bank deposits in favor of a bank in the amount of \$50,100 and \$54,526 in 2002 and 2001, respectively.

Note 4 - RECEIVABLES AND PREPAYMENTS

	December 31	
	2002	2001 (*)
Trade receivables	-	75,332
Chief Scientist of the State of Israel	150,571	-
Government institutions	86,651	70,757
Employees (*)	34,635	32,326
Other	16,754	14,027
	<u>288,611</u>	<u>192,442</u>

(*) Including \$16,550 to shareholders who are also employees (2001 - \$31,703)

Jemtex Ink Jet Printing Ltd.

Notes to the Financial Statements (Cont.)

In U.S. dollars

Note 5 - FIXED ASSETS

	<u>Equipment</u>	<u>Computers</u>	<u>Leasehold improvements</u>	<u>Total</u>
COST -				
As of January 1, 2002	112,445	161,237	63,754	337,436
Acquisitions	8,386	39,384	-	47,770
	<u>120,831</u>	<u>200,621</u>	<u>63,754</u>	<u>385,206</u>
As of December 31, 2002				
ACCUMULATED DEPRECIATION -				
As of January 1, 2002	50,895	91,573	7,904	150,372
Provision	11,951	35,272	6,376	53,599
	<u>62,846</u>	<u>126,845</u>	<u>14,280</u>	<u>203,971</u>
As of December 31, 2002				
NET BOOK VALUE -				
As of December 31, 2002	57,985	73,776	49,474	181,235
	<u>61,550</u>	<u>69,664</u>	<u>55,850</u>	<u>187,064</u>
As of December 31, 2001				
ANNUAL RATES OF DEPRECIATION	<u>7%-20%</u>	<u>20%-33%</u>	<u>10%-14%</u>	

(*) The Company has registered fixed charges on certain of its assets (approximately \$15,000).

Note 6 - PAYABLES AND ACCRUED EXPENSES

	<u>December 31</u>	
	<u>2002</u>	<u>2001</u>
Suppliers	320,286	174,096
Employees and related expenses	191,674	210,206
Accrued vacation	176,219	194,563
Other	40,564	29,946
	<u>728,743</u>	<u>608,811</u>

Jemtex Ink Jet Printing Ltd.

Notes to the Financial Statements (Cont.)

In U.S. dollars

Note 7 - LONG-TERM LOAN

December 31	
2002	2001
571,917	562,949

In 2001, the former parent company forgave the Company for a loan outstanding in the amount of \$224,324. A loan of \$500,000 is still due to the former parent company. The loan bears interest at LIBOR and is repayable out of future net profits at 10 annual payments of \$50,000, including the accrued interest, but not in excess of 10% of the Company's annual net income.

Note 8 - SHAREHOLDERS' DEFICIENCY

- A. The Company reserved 4,261 shares to be granted to employees (1,125 options are outstanding at balance sheet date). The exercise price of the options is between \$178 and \$371 per ordinary share. No options were granted to employees or others in 2002 and 2001.
- B. In March 2002, the Company received an additional capital injection of \$800,000 from a shareholder. The capital injection was the last payment due to the company in accordance with the Share Purchase Agreement signed November 9, 2000.
- C. In December 2002, the Company issued 9,544 Series B Preferred Shares to a shareholder for an aggregate purchase price of \$2.4 million, which shall be paid in three equal installments. The first installment of the purchase price of \$800,000 was paid by December 2002. The remaining two installments of \$800,000 will be paid 90 days and 180 days, respectively from the date of the agreement. As additional consideration for the shareholder's investment, the Company granted two warrants to purchase 3,181 Preferred B shares of the Company (each) at an exercise price of \$251.47 per share exercisable until January 2, 2004 and March 31, 2005, respectively. The Company has already issued the shareholder the 9,544 B Preferred shares.

In addition, the Company issued to the shareholder a convertible, promissory note in the amount of \$250,000, bearing interest at the rate of Libor + 1.75%. The note will be canceled as part of the payment of the third installment for the Series B preferred shares, as noted above.

Jemtex Ink Jet Printing Ltd.

Notes to the Financial Statements (Cont.)

In U.S. dollars

Note 9 - COST OF REVENUES

	For the year ended December 31	
	2002	2001
Salaries and related expenses	319,649	220,851
Components	395,786	175,934
Rent and building maintenance	48,016	57,040
Car expenses	34,330	23,513
Other	48,132	56,002
	<u>845,913</u>	<u>533,340</u>

Note 10 - RESEARCH AND DEVELOPMENT EXPENSES, NET

	For the year ended December 31	
	2002	2001
Salaries and related expenses (1)	1,579,571	1,348,671
Subcontractors	44,719	145,023
Materials	347,416	265,128
Rent and office maintenance	130,140	139,352
Vehicle expenses	200,377	147,518
Patent applications	15,685	16,969
Other	132,510	118,336
	<u>2,450,418</u>	<u>2,180,997</u>
Less – participation by the Chief Scientist of the State of Israel	<u>379,451</u>	<u>201,459</u>
	<u>2,070,967</u>	<u>1,979,538</u>
(1) Including to shareholders	<u>205,160</u>	<u>255,337</u>

Jemtex Ink Jet Printing Ltd.

Notes to the Financial Statements (Cont.)

In U.S. dollars

Note 11 - MARKETING, GENERAL AND ADMINISTRATIVE EXPENSES

	For the year ended December 31	
	2002	2001
Salaries and related expenses (1)	221,871	235,334
Car expenses	29,316	19,353
Professional fees	76,436	70,926
Depreciation	7,132	5,772
Rent and office maintenance	33,557	39,357
Other	128,936	92,831
	<u>497,248</u>	<u>463,573</u>
(1) Including to shareholders	<u>93,598</u>	<u>89,728</u>

Note 12 - COMMITMENTS AND CONTINGENT LIABILITIES

- A. In connection with its research and development, the Company received and accrued participation payments from the Office of the Chief Scientist of the Ministry of Industry and Trade in Israel in the total amount of approximately \$2,478,000. In return for the Government of Israel's participation, the Company is committed to pay royalties at a rate of 3% - 5% of sales of the developed products, up to 100% of the amount of grants received (for grants received under programs approved subsequent to January 1, 2000 - 100% plus interest at LIBOR). The Company's total commitment for royalties payable with respect to future sales, based on Government participations received or accrued, net of royalties paid or accrued, totaled approximately \$2,460,000, as of December 31, 2002.
- B. A venture capital fund ("the VC") has negotiated in 1999 to invest in the Company. No agreement was reached and no investment was executed by the VC. Following the failed negotiations, the VC has demanded damages and other demands of the Company. The Company rejects these demands and believes they are with no basis whatsoever, and accordingly no provision for these demands is included in these financial statements.

Jemtex Ink Jet Printing Ltd.

Notes to the Financial Statements (Cont.)

In U.S. dollars

Note 12 - COMMITMENTS AND CONTINGENT LIABILITIES (Cont.)

- C. The Company's plant is located in the Lod North Industrial Zone, Israel. The plant is leased for a period of 5 years ending on June 30, 2005 with options to extend the lease for up to additional 4 years. Annual lease payment is approximately \$140,000, linked to the Israeli Consumer Price Index.

Note 13 - TAXES ON INCOME

- A. The Company is subject to the Income Tax Law (Inflationary Adjustments), 1985. Under this law, taxable income is computed based on the changes in the Israeli Consumer Price Index.
- B. As of December 31, 2002, the Company has a tax loss carryforward of approximately \$8 million. The difference between the reported loss and the tax loss carryforward emanates mainly from nondeductible expenses.
- C. The Company has received final tax assessments up to 1997.

#

H - 13

REPORT OF INDEPENDENT PUBLIC ACCOUNTANTS

**To The Shareholders of
Objet Geometries Ltd.**

We have audited the accompanying consolidated balance sheets of Objet Geometries Ltd., ("the Company") as of December 31, 2003 and 2002 and the related consolidated statements of operations, changes in shareholders' equity and cash flows for each of the three years in the period ended December 31, 2003. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on the financial statements based on our audit.

We conducted our audit in accordance with generally accepted auditing standards, including those prescribed under the Auditors' Regulations (Auditor's Mode of Performance), 1973 and with the standards of the Public Company Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatements. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management as well as evaluating the overall financial statements presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the consolidated financial position of the Company as of December 31, 2003 and 2002 and the consolidated results of its operations and its cash flows for each of the three years in the period ended December 31, 2003, in conformity with accounting principles generally accepted in the United States.

Without qualifying our opinion, we wish to draw your attention to the following matters:

1. The Company's capital deficiency as at December 31, 2003, and the loss for the year then ended, amounting to approximately 4.0 million dollars and 6.2 million dollars, respectively. The Company's continuation as a going concern is dependent upon additional financial support until profitability is achieved.
The financial statements do not include any adjustments relating to recoverability and classification of the assets and liabilities that might be necessary should the company be unable to continue as a going concern.
2. On December 16, 2003 a lawsuit was filed against the Company – See Note 10E.

/s/ Chaikin, Cohen, Rubin & Gilboa
Chaikin, Cohen, Rubin & Gilboa
Certified Public Accountants (Isr.)

Tel-Aviv, February 16, 2004

Selected Financial Data

(Objet Geometries Ltd.)

The following selected financial data from the balance sheets as of December 31, 2002 and 2003 and from the related statements of operations for each of the three years in the period ended December 31, 2003 are derived from the audited consolidated financial statements of Objet Geometries Ltd. ("Objet"), not included in this Annual Report, which have been prepared in accordance with generally accepted accounting principles in the United States.

This selected financial data is provided pursuant to applicable SEC rules because Scitex's equity in the income from continuing operations before income taxes, extraordinary items and cumulative effect of a change in accounting principle of Objet, an Israeli company in which Scitex currently holds an approximate 23.5% interest, exceeds 10 percent (but less than 20%) of such income of Scitex and its subsidiaries consolidated for the fiscal year ended on December 31, 2003.

	December 31, (U.S. dollars in thousands)	
	2003	2002
Current assets	4,753	5,876
Non current assets	1,482	1,479
Current liabilities	9,554	15,000

	December 31, (U.S. dollars in thousands)		
	2003	2002	2001
Gross revenue	4,966	614	--
Cost of sales	4,043	529	--
Loss from continuing operations (before extraordinary items)	(6,228)	(9,773)	(11,727)
Net losses	(6,228)	(9,773)	(11,727)

EXHIBIT INDEX

- 1.1 Memorandum of Association of the Registrant. (1)
- 1.2 Amended and Restated Articles of Association of the Registrant.
- 3. Voting Agreement dated December 1, 1980, by and among Discount Investment Corporation Ltd., PEC Israel Economic Corporation and Clal Electronics Industries Ltd. (2)
- 4(a)(1) Agreement dated November 20, 2001 between Dundee Securities Corporation and the Registrant. (3)
- 4(a)(2) Asset Purchase Agreement dated November 24, 2003, between Eastman Kodak Company, the Registrant, Scitex Digital Printing, Inc. and Scitex Development Corp.
- 4(a)(3) Agreement dated June 5, 2003 by and among Dundee Securities Corporation, Raymond James Ltd. and the Registrant.
- 4(a)(4) Agreement dated August 11, 2003 by and among Dundee Securities Corporation, Raymond James Ltd. and the Registrant.
- 4(c)(1) The Scitex Israel Key Employee Share Incentive Plan 1991. (1)
- 4(c)(2) The Scitex International Key Employee Stock Option Plan 1991 (as amended, 1995). (1)
- 4(c)(3) Form of the Letter of Indemnification provided to office holders. (4)
- 4(c)(4) The Scitex 2001 Stock Option Plan (as amended, 2003). (5)
- 4(c)(5) The Scitex 2003 Share Option Plan. (6)
- 4(d)(1) Services Agreement dated November 1, 2001, between Clal and the Registrant (as amended, 2004).
- 4(d)(2) Share Exchange Agreement dated December 22, 2002, by and among the Registrant, Scitex Vision Ltd. and Aprion Digital Ltd. (7)
- 4(d)(3) Services Agreement dated March 1, 2004, between Discount Investment Corporation Ltd. and the Registrant.
- 8 List of Subsidiaries of the Registrant.
- 10(a)(2) Year 2002 Annual Report to Shareholders of Creo Inc. for the fiscal year ended September 30, 2002, pages 28 through 42 (inclusive) of which are incorporated herein by reference. (8)
- 10(a)(3) Comments by Independent Accountants of Creo Inc. for U.S. Readers on Canada – U.S. Reporting Differences, dated November 12, 2002. (9)
- 12.1 Certification of CEO of the Registrant pursuant to Rule 13a-14(a) as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
- 12.2 Certification of CFO of the Registrant pursuant to Rule 13a-14(a) as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
- 13.1 Certification of CEO of the Registrant pursuant to Rule 13a-14(b), as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.
- 13.2 Certification of CFO of the Registrant pursuant to Rule 13a-14(b), as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.
- 14(a)(1) Consent of Kesselman & Kesselman, Independent Accountants of Registrant.
- 14(a)(2) Consent of Ziv Haft, Independent Accountants of Jemtex InkJet Printing Ltd.
- 14(a)(3) Consent of Independent Accountants of Objet Geometries Ltd.

14(a)(4) Consent of KPMG LLP, Independent Accountants of Creo Inc.

-
- (1) Incorporated by reference to our Annual Report on Form 20-F for the fiscal year ended December 31, 2000, filed June 29, 2001.
 - (2) Incorporated by reference to Exhibit 10.h of our Registration Statement on Form F-1 filed May 26, 1983 (File No. 2-82743).
 - (3) Incorporated by reference to our Annual Report on Form 20-F for the fiscal year ended December 31, 2001, filed July 1, 2002.
 - (4) Incorporated by reference to Appendix B to our Proxy Statement of our Report on Form 6-K filed April 1, 2004.
 - (5) Incorporated by reference to Exhibit (d)(4) to our Tender Offer Statement on Schedule TO filed May 14, 2004.
 - (6) Incorporated by reference to Appendix B to our Proxy Statement of our Report on Form 6-K filed December 3, 2003.
 - (7) Incorporated by reference to our Annual Report on Form 20-F for the fiscal year ended December 31, 2002, filed June 19, 2003.
 - (8) Incorporated by reference to Exhibit 99.2 of Creo Inc.'s Annual Report on Form 40-F filed February 20, 2003 (incorporated from Creo's Form 6-K filed January 15, 2003).
 - (9) Incorporated by reference to Exhibit 99.3 of Creo Inc.'s Annual Report on Form 40-F filed February 20, 2003.

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Comment/Description:
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EXHIBIT 1.2

ARTICLES OF ASSOCIATION
OF
SCITEX CORPORATION LTD.

Revised to incorporate amendments to and including 25th April 2004

THE COMPANIES ORDINANCE
A COMPANY LIMITED BY SHARES

ARTICLES OF ASSOCIATION
OF
SCITEX CORPORATION LTD.

PRELIMINARY

1. Second Schedule Excluded

The regulations contained in the second schedule to the Companies Ordinance (New Version) 5743-1983 (the “Companies Ordinance”) shall not apply to the Company.

2. Interpretation

(a) Unless the subject or the context otherwise requires: words and expressions defined in the Companies Ordinance in force on the date when these Articles, or any amendment thereto, as the case may be, first became effective shall have the same meanings herein; words and expressions importing the singular shall include the plural and vice versa; words and expressions importing the masculine gender shall include the feminine gender; and words and expressions importing persons shall include bodies corporate.

(b) The captions in these Articles are for convenience only and shall not be deemed a part hereof or affect the constructions of any provision hereof.

(c) Any reference in these Articles to the “Companies Ordinance” shall mean a reference to the Companies Ordinance or the Companies Law 5759-1999 (the “Companies Law”), as applicable in the context.

3. Non-Private Company

The Company is a non-private company.

SHARE CAPITAL

4. Share Capital

The share capital of the Company is five million seven hundred and sixty thousand New Shekels (NIS 5,760,000), divided into forty eight million (48,000,000) Ordinary Shares of a nominal value of twelve Agora (NIS 0.12) each, all ranking *pari passu*.

5. Increase of Share Capital

(a) The Company may, from time to time, by Special Resolution, whether or not all the shares then authorized have been issued, and whether or not all the shares theretofore issued have been called up for payment, increase its share capital by the creation of new shares. Any such increase shall be in such amount and shall be divided into shares of such nominal amounts, and such shares shall confer such rights and preferences, and shall be subject to such restrictions, as such Special Resolution shall provide.

(b) Except to the extent otherwise provided in such Special Resolution, such new shares shall be subject to all the provisions applicable to the shares of the original capital.

6. Special Rights; Modification of Rights

(a) Subject to the provisions of the Memorandum of Association of the Company, and without prejudice to any special rights previously conferred upon the holders of existing shares in the Company, the Company may, from time to time, by Special Resolution, provide for shares with such preferred or deferred rights or rights of redemption or other special rights and/or such restrictions, whether in regard to dividends, voting, repayment of share capital or otherwise, as may be stipulated in such Special Resolution.

(b) (i) If at any time the share capital is divided into different classes of shares, the rights attached to any class, unless otherwise provided by these Articles, may be modified or abrogated by the Company, by Special Resolution, subject to the consent in writing of the holders of seventy-five percent (75%) of the issued shares of such class or the sanction of a Special Resolution passed at a separate General Meeting of the holders of the shares of such class.

(ii) The provisions of these Articles relating to General Meetings shall, *mutatis mutandis*, apply to any separate General Meeting of the holders of the shares of a particular class, provided, however, that the requisite quorum at any such separate General Meeting shall be one or more members present in person or proxy and holding not less than seventy-five percent (75%) of the issued shares of such class.

(iii) Unless otherwise provided by these Articles, the enlargement of an existing class of shares, or the issuance of additional shares thereof, shall not be deemed, for purposes of this Article 6(b), to modify or abrogate the rights attached to the previously issued shares of such class or of any other class.

7. Consolidation, Subdivision and Cancellation of Share Capital

(a) The Company may, from time to time, by Special Resolution (subject, however, to the provisions of Article 6(b) hereof and to applicable law):

- (i) consolidate and divide all or any of its issued or unissued share capital into shares of larger nominal value than its existing shares,
- (ii) subdivide its shares (issued or unissued) or any of them, into shares of smaller nominal value than is fixed by the Memorandum of Association (subject, however, to the provisions of Section 144(4) of the Companies Ordinance), or
- (iii) cancel any shares which, at the date of the adoption of such Special Resolution, have not been taken or agreed to be taken by any person, and diminish the amount of its share capital by the amount of shares so canceled.

(b) With respect of any consolidation of issued shares into shares of larger nominal value, and with respect to any other action which may result in fractional shares, the Board of Directors may settle any difficulty which may arise with regard thereto, as it deems fit, including *inter alia*, resort to one or more of the following actions:

- (i) determine, as to the holder of shares so consolidated, which issued shares shall be consolidated into each share of larger nominal value;
- (ii) allot, in contemplation of or subsequent to such consolidation or other action, such shares or fractional shares sufficient to preclude or remove fractional share holdings;
- (iii) redeem, in the case of redeemable preference shares, and subject to applicable law, such shares or fractional shares sufficient to preclude or remove fractional share holdings;
- (iv) cause the transfer of fractional shares by certain shareholders of the Company to other shareholders thereof so as to most expediently preclude or remove any fractional shareholdings, and cause the transferees to pay the transferors the fair value of fractional shares so transferred, and the Board of Directors is hereby authorized to act as agent for the transferors and transferees with power of substitution for purposes of implementing the provisions of this sub-Article 7(b)(iv).

SHARES

8. Issuance of Share Certificates; Replacement of Lost Certificates

(a) Share certificates shall be issued under the seal or the rubber stamp of the Company and shall bear the signatures or two Directors (or if there be only one Director, the signature of such Director), or of any other person or persons authorized thereto by the Board of Directors.

(b) Each member shall be entitled to one numbered certificate for all the shares of any class registered in his name, and if the Board of Directors so approves, to several certificates, each for one or more of such shares. Each certificate may specify the serial numbers of the shares represented thereby and may also specify the amount paid up thereon.

(c) A share certificate registered in the names of two or more persons shall be delivered to the person first named on the Register of Members in respect of such co-ownership.

(d) If a share certificate is defaced, lost or destroyed, it may be replaced, upon payment of such fee, and upon the furnishing of such evidence of ownership and such indemnity, as the Board of Directors may think fit.

9. Registered Holder

Except as otherwise provided in these Articles, the Company shall be entitled to treat the registered holder of any share as the absolute owner thereof, and, accordingly, shall not, except as ordered by a court of competent jurisdiction, or as required by statute, be bound to recognize any equitable or other claim to, or interest in, such share on the part of any other person.

10. Allotment of Shares

The unissued shares from time to time shall be under the control of the Board of Directors, who shall have the power to allot shares or otherwise dispose of them to such persons, on such terms and conditions (including inter alia terms relating to calls as set forth in Article 12(f) hereof), and either at par or at a premium, or, subject to the provisions of the Companies Ordinance, at a discount, and at such times, as the Board of Directors may think fit, and the power to give to any person the option to acquire from the Company any shares, either at par or at a premium, or, subject as aforesaid, at a discount, during such time and for such consideration as the Board of Directors may think fit.

11. Payment in Installments

If by the terms of allotment of any share, the whole or any part of the price thereof shall be payable in installments, every such installment shall, when due, be paid to the Company by the then registered holder(s) of the share or the person(s) entitled thereto.

12. Calls on Shares

(a) The Board of Directors may, from time to time, make such calls as it may think fit upon members in respect of any sum unpaid in respect of shares held by such members which is not, by the terms of allotment thereof or otherwise, payable at a fixed time, and each member shall pay the amount of every call so made upon him (and of each installment thereof if the same is payable in installments), to the person(s) and at the time(s) and place(s) designated by the Board of Directors, as any such time(s) may be thereafter extended and/or such person(s) or place(s) changed. Unless otherwise stipulated in the resolution of the Board of Directors (and in the notice hereafter referred to), each payment in response to a call shall be deemed to constitute a pro rata payment on account of all the shares in respect of which such call was made.

(b) Notice of any call shall be given in writing to the member(s) in question not less than fourteen (14) days prior to the time of payment, specifying the time and place of payment, and designating the person to whom such payment shall be made, provided, however, that before the time for any such payment, the Board of Directors may, by notice in writing to such member(s), revoke such call in whole or in part, extend such time, or alter such person and/or place. In the event of a call payable in installments, only one notice thereof need be given.

(c) If, by the terms of allotment of any share or otherwise, any amount is made payable at any fixed time, every such amount shall be payable at such time as if it were a call duly made by the Board of Directors and of which due notice had been given, and all the provisions herein contained with respect to such calls shall apply to each such amount.

(d) The joint holders of a share shall be jointly and severally liable to pay all calls in respect thereof and all interest payable thereon.

(e) Any amount unpaid in respect of a call shall bear interest from the date on which it is payable until actual payment thereof, at such rate (not exceeding the then prevailing debitory rate charged by leading commercial banks in Israel), and at such time(s) as the Board of Directors may prescribe.

(f) Upon the allotment of shares, the Board of Directors may provide for differences among the allottees of such shares as to the amount of calls and/or the times of payment thereof.

13. Prepayment

With the approval of the Board of Directors, any member may pay to the Company any amount not yet payable in respect of his shares, and the Board of Directors may approve the payment of interest on any such amount until the same would be payable if it had not been paid in advance, at such rate and time(s) as may be approved by the Board of Directors. The Board of Directors may at any time cause the Company to repay all or any part of the money so advanced, without premium or penalty. Nothing in this Article 13 shall derogate from the right of the Board of Directors to make any call before or after receipt by the Company of any such advance.

14. Forfeiture and Surrender

(a) If any member fails to pay any amount payable in respect of a call, or interest thereon as provided for herein, on or before the day fixed for payment of the same, the Company, by resolution of the Board of Directors, may at any time thereafter, so long as the said amount or interest remains unpaid, forfeit all or any of the shares in respect of which said call had been made. Any expense incurred by the Company in attempting to collect any such amount or interest, including, *inter alia*, attorneys' fees and costs of suits, shall be added to, and shall, for all purposes (including the accrual of interest thereon), constitute a part of, the amount payable to the Company in respect of such call.

(b) Upon the adoption of a resolution of forfeiture, the Board of Directors shall cause notice thereof to be given to such member, which notice shall state that, in the event of the failure to pay the entire amount so payable within a period stipulated in the notice (which period shall be not less than fourteen (14) days and which may be extended by the Board of Directors), such shares shall be *ipso facto* forfeited, provided, however, that, prior to the expiration of such period, the Board of Directors may nullify such resolution of forfeiture, but no such nullification shall estop the Board of Directors from adopting a further resolution of forfeiture in respect of the non-payment of the same amount.

(c) Whenever shares are forfeited as herein provided, all dividends theretofore declared in respect thereof and not actually paid shall be deemed to have been forfeited at the same time.

(d) The Company, by resolution of the Board of Directors, may accept the voluntary surrender of any share.

(e) Any share forfeited or surrendered as provided herein shall become the property of the Company, and the same, subject to the provisions of these Articles, may be sold, re-allotted or otherwise disposed of as the Board of Directors thinks fit.

(f) Any member whose shares have been forfeited or surrendered shall cease to be a member in respect of the forfeited or surrendered shares, but shall, notwithstanding, be liable to pay, and shall forthwith pay, to the Company, all calls, interest and expenses owing upon or in respect of such shares at the time of forfeiture or surrender, together with interest thereon from the time of forfeiture or surrender until actual payment, at the rate prescribed in Article 12(e) above, and the Board of Directors, in its discretion, may enforce the payment of such moneys, or any part thereof, but shall not be under any obligation to do so. In the event of such forfeiture or surrender, the Company, by resolution of the Board of Directors, may accelerate the date(s) of payment of any or all amounts then owing to the Company by the member in question (but not yet due) in respect of all shares owned by such member, solely or jointly with another.

(g) The Board of Directors may at any time, before any share so forfeited or surrendered shall have been sold, re-allotted or otherwise disposed of, nullify the forfeiture or surrender on such conditions as it thinks fit, but no such nullification shall estop the Board of Directors from re-exercising its powers of forfeiture pursuant to this Article 14.

15. Lien

(a) Except to the extent the same may be waived or subordinated in writing, the Company shall have a first and paramount lien upon all the shares registered in the name of each member (without regard to any equitable or other claim or interest in such shares on the part of any other person), and upon the proceeds of the sale thereof, for his debts, liabilities and engagements to the Company arising from any amount payable by such member in respect of any unpaid or partly paid share, whether or not such debt, liability or engagement has matured. Such lien shall extend to all dividends from time to time declared in respect of such shares. Unless otherwise provided, the registration by the Company of a transfer of shares shall be deemed to be a waiver on the part of the Company of the lien (if any) existing on such shares immediately prior to such transfer.

(b) The Board of Directors may cause the Company to sell any shares subject to such lien when any such debt, liability or engagement has matured, in such manner as the Board of Directors may think fit, but no such sale shall be made unless such debt, liability or engagement has not been satisfied within fourteen (14) days after written notice of the intention to sell shall have been served on such member, his executors or administrators.

(c) The net proceeds of any such sale, after payment of the costs thereof, shall be applied in or toward satisfaction of the debts, liabilities or engagements of such member (whether or not the same have matured), and the residue (if any) shall be paid to the member, his executors, administrators or assigns.

16. Sale After Forfeiture or Surrender or in Enforcement of Lien

Upon any sale of shares after forfeiture or surrender or for enforcing a lien, the Board of Directors may appoint some person to execute an instrument of transfer of the shares so sold and cause the purchaser's name to be entered in the Register of Members in respect of such shares, and the purchaser shall not be bound to see to the regularity of proceedings, or to the application of the purchase money, and after his name has been entered in the Register of Members in respect of such shares, the validity of the sale shall not be impeached by any person, and the remedy of any person aggrieved by the sale shall be in damages only and against the Company exclusively.

17. Redeemable Shares

The Company may, subject to applicable law, issue redeemable shares and redeem the same.

18. Conversion of Shares into Stock

(a) The Board of Directors may, with the sanction of the members previously given by Special Resolution, convert any paid-up shares into stock, and may, with like sanction, reconvert any stock into paid-up shares of any denomination.

(b) The holders of stock may transfer the same, or any part thereof, in the same manner and subject to the same regulations, as the shares from which the stock arose might have been transferred prior to conversion, or as near thereto as circumstances admit, provided, however, that the Board of Directors may from time to time fix the minimum amount of stock so transferable, and restrict or forbid the transfer of fractions of such minimum, but the minimum shall not exceed the nominal value of each of the shares from which such stock arose.

(c) The holders of stock shall, in accordance with the amount of stock held by them, have the same rights and privileges as regards dividends, voting at meetings of the Company and other matters as if they held the shares from which such stock arose, but no such right or privilege, except participation in the dividends and profits of the Company, shall be conferred by any such aliquot part of such stock as would not, if existing in shares, have conferred that right or privilege.

(d) Such of the Articles of the Company as are applicable to paid-up shares shall apply to stock, and the words “share” and “shareholder” (or “member”) therein shall include “stock” and “stockholder”.

TRANSFER OF SHARES

19. Registration of Transfer

No transfer of shares shall be registered unless a proper writing or instrument of transfer (in any customary form or any other form satisfactory to the Board of Directors) has been submitted to the Company (or its transfer agent), together with the share certificate(s) and such other evidence of title as the Board of Directors may reasonably require. Until the transferee has been registered in the Register of Members in respect of the shares so transferred, the Company may continue to regard the transferor as the owner thereof.

20. Record Date for Notices of General Meetings

Any other provision of these Articles to the contrary notwithstanding, the Board of Directors may fix a date, not exceeding Ninety (90) days prior to the date of any General Meeting, as the date as of which shareholders entitled to notice of and to vote at such meeting shall be determined, and all persons who were holders of record of voting shares on such date and no others shall be entitled to notice of and to vote at such meeting.

TRANSMISSION OF SHARES

21. Decedents' Shares

(a) In case of a share registered in the names of two or more holders, the Company may recognize the survivor(s) as the sole owner (s) thereof unless and until the provisions of Article 21(b) have been effectively invoked.

(b) Any person becoming entitled to a share in consequence of the death of any person, upon producing evidence of the grant of probate or letters of administration or declaration of succession (or such other evidence as the Board of Directors may reasonably deem sufficient that he sustains the character in respect of which he proposes to act under this Article or of his title), shall be registered as a member in respect of such share, or may, subject to the regulations as to transfer herein contained, transfer such share.

22. Receivers and Liquidators

(a) The Company may recognize the receiver or liquidator of any corporate member in winding-up or dissolution, or the receiver or trustee in bankruptcy of any member, as being entitled to the shares registered in the name of such member.

(b) The receiver or liquidator of a corporate member in winding-up or dissolution, or the receiver or trustee in bankruptcy of any member, upon producing such evidence as the Board of Directors may deem sufficient that he sustains the character in respect of which he proposes to act under this Article or of his title, shall with the consent of the Board of Directors (which the Board of Directors may grant or refuse in its absolute discretion), be registered as a member in respect of such shares, or may, subject to the regulations as to transfer herein contained, transfer such shares.

GENERAL MEETINGS

23. Annual General Meeting

An Annual General Meeting shall be held once in every calendar year at such time (within a period of not more than fifteen (15) months after the last preceding Annual General Meeting) and at such place, either within or without the State of Israel, as may be determined by the Board of Directors.

24. Extraordinary General Meetings

All General Meetings other than Annual General Meetings shall be called "Extraordinary General Meetings". The Board of Directors may, whenever it thinks fit, convene an Extraordinary General Meeting, at such time and place, within or without the State of Israel, as may be determined by the Board of Directors, and shall be obliged to do so upon a requisition in writing in accordance with Section 109 of the Companies Ordinance.

25. Notice of General Meetings; Omission to Give Notice

(a) Not less than seven (7) days' prior notice shall be given of every General Meeting, provided, however, that a Special Resolution shall not be passed unless at least twenty-one (21) days' prior notice shall have been given of the meeting at which it is proposed to pass the same. Each such notice shall specify the place and the day and hour of the meeting and the general nature of each item to be acted upon thereat, said notice to be given to all members who would be entitled to attend and vote at such meeting. Anything herein to the contrary notwithstanding, with the consent of all members entitled to vote thereon, a resolution may be proposed and passed at such meeting although a lesser notice than hereinabove prescribed has been given.

(b) The accidental omission to give notice of a meeting to any member, or the non-receipt of notice sent to such member, shall not invalidate the proceedings at such meeting.

PROCEEDINGS AT GENERAL MEETINGS

26. Quorum

(a) Two or more members (not in default in payment of any sum referred to in Article 32(a) hereof), present in person or by proxy and holding shares conferring in the aggregate thirty-three and one-third percent ($33\frac{1}{3}\%$) of the voting power of the Company, shall constitute a quorum at General Meetings. No business shall be transacted at a General Meeting, or at any adjournment thereof, unless the requisite quorum is present when the meeting proceeds to business.

(b) If within half an hour from the time appointed for a meeting a quorum is not present, the meeting, if convened upon requisition under Section 109 of the Companies Ordinance, shall be dissolved, but in any other case it shall stand adjourned to the same day in the next week, at the same time and place, or to such day and at such time and place as the Chairman may determine with the consent of the holders of a majority of the voting power represented at the meeting in person or by proxy and voting on the question of adjournment. No business shall be transacted at any adjourned meeting except business which might lawfully have been transacted at the meeting as originally called. At such adjourned meeting, any two (2) members (not in default as aforesaid) present in person or by proxy, shall constitute a quorum.

27. Chairman

The Chairman, if any, of the Board of Directors shall preside as Chairman at every General Meeting of the Company. If there is no such Chairman, or if at any meeting he is not present within fifteen (15) minutes after the time fixed for holding the meeting or is unwilling to act as Chairman, the members present shall choose someone of their number to be Chairman. The office of Chairman shall not, by itself, entitle the holder thereof to vote at any General Meeting nor shall it entitle such holder to a second or casting vote (without derogating, however, from the rights of such Chairman to vote as a shareholder or proxy of a shareholder if, in fact, he is also a shareholder or such proxy).

28. Adoption of Resolutions at General Meetings

(a) (i) An Ordinary Resolution shall be deemed adopted if approved by the holders of a majority of the voting power represented at the meeting in person or by proxy and voting thereon.

(ii) A Special or Extraordinary Resolution shall be deemed adopted if approved by the holders of not less than seventy-five percent (75%) of the voting power represented at the meeting in person or by proxy and voting thereon.

(b) Every question submitted to a General Meeting shall be decided by a show of hands, but if a written ballot is demanded by any member present in person or by proxy and entitled to vote at the meeting, the same shall be decided by such ballot. A written ballot may be demanded before the proposed resolution is voted upon or immediately after the declaration by the Chairman of the results of the vote by a show of hands. If a vote by written ballot is taken after such declaration, the results of the vote by a show of hands shall be of no effect, and the proposed resolution shall be decided by such written ballot. The demand for a written ballot may be withdrawn at any time before the same is conducted, in which event another member may then demand such written ballot. The demand for a written ballot shall not prevent the continuance of the meeting for the transaction of business other than the question on which the written ballot has been demanded.

(c) A declaration by the Chairman of the meeting that a resolution has been carried unanimously, or carried by a particular majority, or lost, and an entry to that effect in the minute book of the Company, shall be conclusive evidence of the fact without proof of the number or proportion of the votes recorded in favor of or against such resolution.

29. Resolutions in Writing

A resolution in writing signed by all members of the Company then entitled to attend and vote at General Meetings or to which all such members have given their written consent (by letter, telegram, telex or otherwise) shall be deemed to have been unanimously adopted by a General Meeting duly convened and held.

30. Power to Adjourn

(a) The Chairman of a General Meeting at which a quorum is present may, with the consent of the holders of a majority of the voting power represented in person or by proxy and voting on the question of adjournment (and shall if so directed by the meeting), adjourn the meeting from time to time and from place to place, but no business shall be transacted at any adjourned meeting except business which might lawfully have been transacted at the meeting as originally called.

(b) It shall not be necessary to give any notice of an adjournment, whether pursuant to Article 26(b) or Article 30(a), unless the meeting is adjourned for thirty (30) days or more in which event notice thereof shall be given in the manner required for the meeting as originally called.

31. Voting Power

Subject to the provisions of Article 32(a) and subject to any provision hereof conferring special rights as to voting, or restricting the right to vote, every member shall have one vote for each share held by him of record, on every resolution, without regard to whether the vote thereon is conducted by a show of hands, by written ballot or by any other means.

32. Voting Rights

(a) No member shall be entitled to vote at any General Meeting (or be counted as a part of the quorum thereat), unless all calls then payable by him in respect of his shares in the Company have been paid, but this Article 32(a) shall not apply to separate General Meetings of the holders of a particular class of shares pursuant to Article 6(b).

(b) A company or other corporate body being a member of the Company may duly authorize any persons to be its representative at any meeting of the Company or to execute or deliver a proxy on its behalf. Any person so authorized shall be entitled to exercise on behalf of such member all the powers which the latter could have exercised if it were an individual shareholder. Upon the request of the Chairman of the meeting, written evidence of such authorization (in form acceptable to the Chairman) shall be delivered to him.

(c) Any member entitled to vote may vote either personally or by proxy (who need not be a member of the Company), or, if the member is a company or other corporate body, by a representative authorized pursuant to Article 32(b).

(d) If two or more persons are registered as joint holders of any share, the vote of the senior who tenders a vote, in person or by proxy, shall be accepted to the exclusion of the vote(s) of the other joint holder(s); and for this purpose seniority shall be determined by the order in which the names stand in the Register of Members.

PROXIES

33. Instrument of Appointment

(a) The instrument appointing a proxy shall be in writing and shall be substantially in the following form:

"I (*Name of Shareholder*) of (*Address of Shareholder*) being a member of (*Name of Company*) hereby appoint (*Name of Proxy*) of (*Address of Proxy*) as my proxy to vote for me and on my behalf at the General Meeting of the Company to be held on the _____ day of _____ 19__ and at any adjournment(s) thereof.
Signed this _____ day of _____ 19__.

(Signature of Appointor)"

or in any usual or common form or in such other form as may be approved by the Board of Directors. It shall be duly signed by the appointor or his duly authorized attorney or, if such appointer is a company or other corporate body, under its common seal or stamp or the hand of its duly authorized agent(s) or attorney(s).

(b) The instrument appointing a proxy (and the power of attorney or other authority, if any, under which such instrument has been signed) shall either be delivered to the Company (at its Registered Office, or at its principal place of business or at the offices of its registrar and/or transfer agent or at such place as the Board of Directors may specify) not less than twenty-four (24) hours before the time fixed for the meeting at which the person named in the instrument proposes to vote, or presented to the Chairman at such meeting.

(c) The Board of Directors may determine, in its discretion, the matters that may be voted upon by ballot (without attendance in person or by proxy) at the meeting, in addition to the matters listed in Section 87(a) of the Companies Law.

34. Effect of Death of Appointor or Revocation of Appointment

A vote cast pursuant to an instrument appointing a proxy shall be valid notwithstanding the previous death of the appointing member (or of his attorney-in-fact, if any, who signed such instrument), or the revocation of the appointment or the transfer of the share in respect of which the vote is cast, provided no written intimation of such death, revocation or transfer shall have been received by the Company or by the Chairman of the meeting before such vote is cast and provided, further, that the appointing member, if present in person at said meeting, may revoke the appointment by means of a writing, and notification to the Chairman, or otherwise.

BOARD OF DIRECTORS

35. Powers of Board of Directors

(a) In General

The management of the business of the Company shall be vested in the Board of Directors, which may exercise all such powers and do all such acts and things as the Company is authorized to exercise and do, and are not hereby or by law required to be exercised or done by the Company in General Meeting. The authority conferred on the Board of Directors by this Article 35 shall be subject to the provisions of the Companies Ordinance, of these Articles and any regulation or resolution consistent with these Articles adopted from time to time by the Company in General Meeting, provided, however, that no such regulation or resolution shall invalidate any prior act done by or pursuant to a decision of the Board of Directors which would have been valid if such regulation or resolution had not been adopted.

(b) Borrowing Power

The Board of Directors may from time to time, in its discretion, cause the Company to borrow or secure the payment of any sum or sums of money for the purposes of the Company, and may secure or provide for the repayment of such sum or sums in such manner, at such times and upon such terms and conditions in all respects as it thinks fit, and, in particular, by the issuance of bonds, perpetual or redeemable debentures, debenture stock, or any mortgages, charges, or other securities on the undertaking or the whole or any part of the property of the Company, both present and future, including its uncalled or called but unpaid capital for the time being.

(c) Reserves

The Board of Directors may, from time to time, set aside any amount(s) out of the profits of the Company as a reserve or reserves for any purpose(s) which the Board of Directors, in its absolute discretion, shall think fit, and may invest any sum so set aside in any manner and from time to time deal with and vary such investments, and dispose of all or any part thereof, and employ any such reserve or any part thereof in the business of the Company without being bound to keep the same separate from other assets of the Company, and may subdivide or redesignate any reserve or cancel the same or apply the funds therein for another purpose, all as the Board of Directors may from time to time think fit.

(d) Contributions

The Board may, from time to time, authorize the Company to make contributions in reasonable amounts for charitable, public or other worthy causes which it deems appropriate.

36. Exercise of Powers of Board of Directors

(a) A meeting of the Board of Directors at which a quorum is present (in person, by means of a conference call or any other means enabling each director participating in such meeting to communicate orally or in writing in the course of the meeting with the other directors participating in such meeting, or in any other way the Board of Directors thinks fit) shall be competent to exercise all the authorities, powers and discretions vested in or exercisable by the Board of Directors.

(b) A resolution proposed at any meeting of the Board of Directors shall be deemed adopted if approved by a majority of the Directors present when such resolution is put to a vote and voting thereon.

(c) A resolution in writing signed by all Directors then in office and lawfully entitled to vote thereon (as conclusively determined by the Chairman of the Audit Committee (*Va'adat Bikoret*) and in the absence of such determination – by the Chairman of the Board of Directors) or to which all such Directors have given their consent (by letter, telegram, telex, facsimile (telecopier), electronic mail or otherwise, or by oral communication, telephone or otherwise, to the Chairman or Secretary of the Company and confirmed in writing by such officer) shall be deemed to have been unanimously adopted by a meeting of the Board of Directors duly convened and held.

37. Delegation of Powers

(a) The Board of Directors may, subject to the provisions of the Companies Ordinance, delegate any or all of its powers to committees, each consisting of two or more persons (who are Directors), and it may from time to time revoke such delegation or alter the composition of any such committee. Any Committee so formed (in these Articles referred to as a “Committee of the Board of Directors”), shall, in the exercise of the powers so delegated, conform to any regulations imposed on it by the Board of Directors. The meetings and proceedings of any such Committee of the Board of Directors shall, *mutatis mutandis*, be governed by the provisions herein contained for regulating the meetings of the Board of Directors, so far as not superseded by any regulations adopted by the Board of Directors under this Article. Unless otherwise expressly provided by the Board of Directors in delegating powers to a Committee of the Board of Directors, such Committee shall not be empowered to further delegate such powers. Without limiting the scope of the foregoing, the Board of Directors may delegate to a committee its power, authority and discretion to approve transactions, which are not “extraordinary transactions”, of the type referred to in Section 270(1) of the Companies Law.

(b) Without derogating from the provisions of Article 50, the Board of Directors may from time to time appoint a Secretary to the Company, as well as officers, agents, employees and independent contractors, as the Board of Directors may think fit, and may terminate the service of any such person. The Board of Directors may, subject to the provisions of the Companies Ordinance, determine the powers and duties, as well as the salaries and emoluments, of all such persons, and may require security in such cases and in such amounts as it thinks fit.

(c) The Board of Directors may from time to time, by power of attorney or otherwise, appoint any person, company, firm or body of persons to be the attorney or attorneys of the Company at law or in fact for such purpose(s) and with such powers, authorities and discretions, and for such period and subject to such conditions, as it thinks fit, and any such power of attorney or other appointment may contain such provisions for the protection and convenience of persons dealing with any such attorney as the Board of Directors may think fit, and may also authorize any such attorney to delegate all or any of the powers, authorities and discretions vested in him.

38. Number of Directors

The Board of Directors of the Company shall consist of such number of Directors (not less than five nor more than fifteen) as may be fixed, from time to time, by Ordinary Resolution of the Company.

39. Election and Removal of Directors

The holders of a majority of the voting power represented at a General Meeting by person or by proxy and voting on the election of Directors at said Meeting shall be entitled to elect all or any of the Directors, may remove any Director(s) from office and may fill any vacancy, however created, in the Board of Directors.

40. Qualification of Directors

No person shall be disqualified to serve as a Director by reason of his not holding shares in the Company or by reason of his having served as a Director in the past.

41. Continuing Directors in the Event of Vacancies

In the event of one or more vacancies in the Board of Directors, the continuing Directors may continue to act in every matter, and, pending the filling of any vacancy pursuant to the provisions of Article 39, may temporarily fill any such vacancy, provided, however, that if they number less than a majority of the number provided pursuant to Article 38 hereof, they may only act in an emergency, and may call a General Meeting of the Company for the purpose of electing Directors to fill any or all vacancies, so that at least a majority of the number of Directors provided for pursuant to Article 38 hereof are in office as a result of said meeting.

42. Vacation of Office

(a) The office of a Director shall be vacated, *ipso facto*, upon his death, or if he be found lunatic or become of unsound mind, or if he become bankrupt, or, if the Director is a company, upon its winding-up.

(b) The office of a Director shall be vacated by his written resignation. Such resignation shall become effective on the date fixed therein, or upon the delivery thereof to the Company, whichever is later.

43. Remuneration of Directors

No Director shall be paid any remuneration by the Company for his services as Director except as may be approved pursuant to the provisions of the Companies Ordinance.

44. Conflict of Interests

(a) Subject to the provisions of the Companies Ordinance, no Director shall be disqualified by virtue of his office from holding any office or place of profit under the Company or under any company in which the Company shall be a shareholder or otherwise interested, or from contracting with the Company as vendor, purchaser or otherwise, nor shall any such contract, or any contract or arrangement entered into by or on behalf of the Company in which any Director shall be in any way interested, be avoided, nor, other than as required under the Companies Ordinance, shall any Director be liable to account to the Company for any profit arising from any such office or place of profit or realized by any such contract or arrangement by reason only of such Director's holding that office or of the fiduciary relations thereby established, but the nature of his interest, as well as any material fact or document, must be disclosed by him at the meeting of the Board of Directors at which the contract or arrangement is first considered, if his interest then exists, or, in any other case, no later than the first meeting of the Board of Directors after the acquisition of his interest.

(b) Subject to the provisions of the Companies Law, the entering into of a transaction by the Company with an Office Holder or a third party in which an Office Holder has a personal interest (as more fully described in Section 270(1) of the Companies Law), which is not an "extraordinary transaction" shall, if such Office Holder is a Director or the General Manager, be approved in such manner as may be prescribed by the Board of Directors, from time to time, and in the absence of thereof, will require the approval of the Board of Directors. If such Office Holder is not a Director, then such transaction shall be approved in such manner as may be prescribed by the General Manager from time to time and in the absence of any such determination, with the approval of the General Manager, according to guidelines from the Board of Directors.

45. Alternate Directors

(a) A Director may, by written notice to the Company, appoint an alternate for himself (in these Articles referred to as "Alternate Director"), remove such Alternate Director and appoint another Alternate Director in place of any Alternate Director appointed by him whose office has been vacated for any reason whatsoever. Unless the appointing Directors, by the instrument appointing an Alternate Director or by written notice to the Company, limits such appointment to a specified period of time or restricts it to a specified meeting or action of the Board of Directors, or otherwise restricts its scope, the appointment shall be for an indefinite period, and for all purposes.

(b) Any notice given to the Company pursuant to Article 45(a) shall become effective on the date fixed therein, or upon the delivery thereof to the Company, whichever is later.

(c) An Alternate Director shall have all the rights and obligations of the Director who appointed him, provided, however, that he may not in turn appoint an alternate for himself (unless the instrument appointing him otherwise expressly provides), and provided further than an Alternate Director shall have no standing at any meeting of the Board of Directors or any committee thereof while the Director who appointed him is present.

(d) Any natural person, whether or not he be a member of the Board of Directors, may act as an Alternate Director. One person may act as Alternate Director for several Directors, and in such event he shall have a number of votes (and shall be treated as the number of persons for purposes of establishing a quorum) equal to the number of Directors for whom he acts as an Alternate Director. If an Alternate Director is also a Director in his own right, his rights as an Alternate Director shall be in addition to his rights as a Director.

(e) An Alternate Director shall alone be responsible for his own acts and defaults, and he shall not be deemed the agent of the Director(s) who appointed him.

(f) The office of an Alternate Director shall be vacated under the circumstances, *mutatis mutandis*, set forth in Article 42, and such office shall *ipso facto* be vacated if the Director who appointed such Alternate Director ceases to be a Director.

PROCEEDINGS AT THE BOARD OF DIRECTORS

46. Meetings

(a) The Board of Directors may meet and adjourn its meetings and otherwise regulate such meetings and proceedings as the Directors think fit.

(b) Any Director may at any time, and the Secretary, upon the request of such Director, shall, convene a meeting of the Board of Directors, but not less than fourteen (14) days' notice shall be given of any meeting so convened.

47. Quorum

Until otherwise unanimously decided by the Board of Directors, a quorum at a meeting of the Board of Directors shall be constituted by the presence of a majority of the Directors then in office who are lawfully entitled to participate in the meeting (as conclusively determined by the Chairman of the Audit Committee (*Va'adat Bikoret*) and in the absence of such determination – by the Chairman of the Board of Directors) but shall not be less than two. No business shall be transacted at a meeting of the Board of Directors unless the requisite quorum is present when the meeting proceeds to business.

48. Chairman of the Board of Directors

The Board of Directors may from time to time elect one of its members to be the Chairman of the Board of Directors, remove such Chairman from office and appoint another in its place. The Chairman of the Board of Directors shall preside at every meeting of the Board of Directors, but if there is no such Chairman, or if at any meeting he is not present within fifteen (15) minutes of the time fixed for the meeting, or if he is unwilling to take the chair, the Directors present shall choose one of their number to be the chairman of such meeting.

49. Validity of Acts Despite Defects

All acts done *bona fide* at any meeting of the Board of Directors, or of a Committee of the Board of Directors, or by any person(s) acting as Director(s), shall, notwithstanding that it may afterwards be discovered that there was some defect in the appointment of the participants in such meetings or any of them or any person(s) acting as aforesaid, or that they or any of them were disqualified, be as valid as if there were no such defect or disqualification.

GENERAL MANAGER

50. General Manager

The Board of Directors may from time to time appoint one or more persons, whether or not Directors, as General Manager(s) of the Company and may confer upon such person(s), and from time to time modify or revoke, such title(s) (including Managing Director, Director General or any similar or dissimilar title) and such duties and authorities of the Board of Directors as the Board of Directors may deem fit, subject to such limitations and restrictions as the Board of Directors may from time to time prescribe. Such appointment(s) may be either for a fixed term or without any limitation of time, and the Board of Directors may from time to time (subject to the provisions of the Companies Ordinance and of any contract between any such person and the Company) fix his or their salaries and emoluments, remove or dismiss him or them from office and appoint another or others in his or their place or places.

MINUTES

51. Minutes

(a) Minutes of each General Meeting and of each meeting of the Board of Directors shall be recorded and duly entered in books provided for that purpose. Such minutes shall, in all events, set forth the names of the persons present at the meeting and all resolutions adopted thereat.

(b) Any minutes as aforesaid, if purporting to be signed by the chairman of the meeting or by the chairman of the next succeeding meeting, shall constitute *prima facie* evidence of the matters recorded therein.

DIVIDENDS

52. Declaration of Dividends

Subject to the provisions of the Companies Law, the Board of Directors may from time to time declare, and cause the Company to pay, such dividends as may appear to the Board of Directors appropriate. The Board of Directors shall determine, and may authorize, subject to applicable law, any of its directors and/or officers to determine, the time for payment of such dividends and the record date for determining the shareholders entitled thereto.

53. Funds Available for Payment of Dividends

No dividend shall be paid other than as permitted under the Companies Law.

54. Amount Payable by Way of Dividends

Subject to the rights of the holders of shares with special rights as to dividends, any dividend paid by the Company shall be allocated among the members entitled thereto in proportion to the nominal value of their respective holdings of the shares in respect of which such dividend is being paid.

55. Interest

No dividend shall carry interest as against the Company.

56. Payment in Specie

Subject to the provisions of the Companies Law, upon the declaration of the Board of Directors, a dividend may be paid, wholly or partly, by the distribution of specific assets of the Company or by distribution of paid up shares, debentures or debenture stock of the Company or of any other companies, or in any one or more of such ways.

57. Capitalization of Profits, Reserves, etc.

Subject to the provisions of the Companies Law, upon the resolution of the Board of Directors, the Company (i) may cause any moneys, investments, or other assets forming part of the undivided profits of the Company, standing to the credit of a reserve fund, or to the credit of a reserve fund for the redemption of capital, or in the hands of the Company and available for dividends, or representing premiums received on the issuance of shares and standing to the credit of the share premium account, to be capitalized and distributed among such of the shareholders as would be entitled to receive the same if distributed by way of dividend and in the same proportion, on the footing that they become entitled thereto as capital, or may cause any part of such capitalized fund to be applied on behalf of such shareholders in paying up in full, either at par or at such premium as the resolution may provide, any unissued shares or debentures or debenture stock of the Company which shall be distributed accordingly, in payment, in full or in part, of the uncalled liability on any issued shares or debentures or debenture stock; and (ii) may cause such distribution or payment to be accepted by such shareholders in full satisfaction of their interest in the said capitalized sum.

58. Implementation of Powers Under Articles 56 and 57

For the purpose of giving full effect to any resolution under Articles 56 or 57, and without derogating from the provisions of Article 7(b) hereof, the Board of Directors may settle any difficulty which may arise in regard to the distribution as it thinks expedient, and, in particular, may issue fractional certificates, and may fix the value for distribution to any members upon the footing of the value so fixed, or that fractions of less nominal value than the nominal value of one Ordinary Share may be disregarded in order to adjust the rights of all parties, and may vest any such cash, shares, debentures, debenture stock or specific assets in trustees upon such trusts for the persons entitled to the dividend or capitalized fund as may seem expedient to the Board of Directors. Where requisite, a proper contract shall be filed in accordance with Section 130 of the Companies Ordinance, and the Board of Directors may appoint any person to sign such contract on behalf of the person entitled to the dividend or capitalized fund.

59. Deductions from Dividends

The Board of Directors may deduct from any dividend or other moneys payable to any member in respect of a share any and all sums of money then payable by him to the Company on account of calls.

60. Retention of Dividends

(a) The Board of Directors may retain any dividend or other moneys payable or property distributable in respect of a share on which the Company has a lien, and may apply the same in or toward the satisfaction of the debts, liabilities, or engagements in respect of which the lien exists.

(b) The Board of Directors may retain any dividend or other moneys payable or property distributable in respect of a share in respect of which any person is, under Articles 21 or 22, entitled to become a member, or which any persons is, under said Articles, entitled to transfer, until such person shall become a member in respect of such share or shall transfer the same.

61. Unclaimed Dividends

All unclaimed dividends or other moneys payable in respect of a share may be invested or otherwise made use of by the Board of Directors for the benefit of the Company until claimed. The payment by the Directors of any unclaimed dividend or such other moneys into a separate account shall not constitute the Company a trustee in respect thereof. The principal (and only the principal) of an unclaimed dividend or such other moneys shall be, if claimed, paid to a person entitled thereto.

62. Mechanics of Payment

Any dividend or other moneys payable in cash in respect of a share may be paid by check or warrant sent through the post to, or left at, the registered address of the person entitled thereto or by transfer to a bank account specified by such person (or, if two or more persons are registered as joint holders of such share or are entitled jointly thereto in consequence of the death or bankruptcy of the holder or otherwise, to any one of such persons or to his bank account), or to such person and at such address as the person entitled thereto may by writing direct. Every such check or warrant shall be made payable to the order of the person to whom it is sent, or to such person as the person entitled thereto as aforesaid may direct, and payment of the check or warrant by the banker upon whom it is drawn shall be a good discharge to the Company.

63. Receipt from a Joint Holder

If two or more persons are registered as joint holders of any share, or are entitled jointly thereto in consequence of the death or bankruptcy of the holder or otherwise, any one of them may give effectual receipts for any dividend or other moneys payable or property distributable in respect of such share.

ACCOUNTS

64. Books of Account

The Board of Directors shall cause accurate books of account to be kept in accordance with the provisions of the Companies Ordinance and of any other applicable law. Such books of account shall be kept at the Registered Office of the Company, or at such other place or places as the Board of Directors may think fit, and they shall always be open to inspection by all Directors. No member, not being a Director, shall have any right to inspect any account or book or other similar document of the Company, except as conferred by law or authorized by the Board of Directors or by Ordinary Resolution of the Company.

65. Audit

At least once in every fiscal year the accounts of the Company shall be audited and the correctness of the profit and loss account and balance sheet certified by one or more duly qualified auditors.

66. Auditors

The appointment, authorities, rights and duties of the auditor(s) of the Company, shall be regulated by applicable law. The Board of Directors shall have the authority to fix, in its discretion, the remuneration of the auditor(s) for their auditing services and may delegate such authority to the Audit Committee of the Company.

BRANCH REGISTERS

67. Branch Registers

Subject to and in accordance with the provisions of Sections 71 to 80, inclusive, of the Companies Ordinance and to all orders and regulations issued thereunder, the Company may cause branch registers to be kept in any place outside Israel as the Board of Directors may think fit, and, subject to all applicable requirements of law, the Board of Directors may from time to time adopt such rules and procedures as it may think fit in connection with the keeping of such branch registers.

RIGHTS OF SIGNATURE, STAMP AND SEAL

68. Rights of Signature, Stamp and Seal

(a) The Board of Directors shall be entitled to authorize any person or persons (who need not be Directors) to act and sign on behalf of the Company, and the acts and signature of such person(s) on behalf of the Company shall bind the Company insofar as such person(s) acted and signed within the scope of his or their authority.

(b) The Company shall have at least one official stamp.

(c) The Board of Directors may provide for a seal. If the Board of Directors so provides, it shall also provide for the safe custody thereof. Such seal shall not be used except by the authority of the Board of Directors and in the presence of the person(s) authorized to sign on behalf of the Company, who shall sign every instrument to which such seal is affixed.

(d) The Company may exercise the powers conferred by Section 102 of the Companies Ordinance regarding a seal for use abroad, and such powers shall be vested in the Board of Directors.

NOTICES

69. Notices

(a) Any written notice or other document may be served by the Company upon any member either personally or by sending it by prepaid mail (airmail if sent internationally) addressed to such member at his address as described in the Register of Members or such other address as the member may have designated in writing for the receipt of notices and other documents. Such designation may include a broker or other nominee holding shares at the instruction of the shareholder. Proof that an envelope containing a notice was properly addressed, stamped and mailed shall be conclusive evidence that notice was given. A declaration of an authorized person on behalf of the stock transfer agent of the Company or other distribution agent stating that a notice was mailed to a shareholder will suffice as proof of notice for purposes of this Article.

(b) Any written notice or other document may be served by any member upon the Company by tendering the same in person to the Secretary or the General Manager of the Company at the principal office of the Company or by sending it by prepaid registered mail (airmail if mailed from outside Israel) to the Company at its Registered Address.

(c) Any notice of General Meeting shall be deemed to be properly served by the Company on the date of mailing (when initially sent by mail) or on the date of transmission (when initially sent via facsimile (telecopier), cablegram, email or other electronic means and confirmed by mail), irrespective of the date upon which it was actually received, provided mailing, transmission (by any of the aforesaid means) or tendering in person to such member commenced or took place at least twenty one (21) days prior to the date upon which the said General Meeting is to be held.

(d) Subject to paragraph (c) above, any notice or other document referred to in paragraph (a) or (b) of this Article shall be deemed to have been served forty-eight (48) hours (or twenty-four (24) hours provided both days are regular business days) after it has been mailed (five (5) days if sent internationally), or when actually received by the addressee if sooner than forty-eight hours, twenty-four hours or five days, as the case may be, after it has been mailed, or when actually tendered in person, to such member (or to the Secretary or the General Manager), provided, however, that notice may be sent by facsimile (telecopier), cablegram, email or other electronic means and confirmed by mail as aforesaid, and such notice shall be deemed to have been given twenty-four (24) hours after such facsimile (telecopier), cablegram, email or other electronic means has been sent or when actually received by such member (or by the Company), whichever is the earlier.

(e) If a notice is, in fact, received by the addressee, it shall be deemed to have been duly served, when received, notwithstanding that it was defectively addressed or failed, in some other respect, to comply with the provisions of this Article 69.

(f) All notices to be given to the members shall, with respect to any share to which persons are jointly entitled, be given to whichever of such persons is named first in the Register of Members, and any notice so given shall be sufficient notice to the holders of such share.

(g) Any member whose address is not described in the Register of Members, and who shall not have designated in writing an address for the receipt of notices, shall not be entitled to receive any notice from the Company.

(h) The mailing date, actual transmission or delivery date or publication date and the date of the meeting shall be counted as part of the days comprising any notice period.

INSURANCE AND INDEMNITY

70. Exculpation, Indemnity and Insurance

(a) For purposes of these Articles, the term "Office Holder" shall mean every Director and every officer of the Company, including, without limitation, each of the persons defined as "*Nosei Misra*" in the Companies Law.

(b) Subject to the provisions of the Companies Law, the Company may prospectively exculpate an Office Holder from all or some of the Office Holder's responsibility for damage resulting from the Office Holder's breach of the Office Holder's duty of care to the Company:

(c) Subject to the provisions of the Companies Law, the Company may indemnify an Office Holder in respect of an obligation or expense specified below imposed on the Office Holder in respect of an act performed in his or her capacity as an Office Holder, as follows:

(i) a financial obligation imposed on him or her in favor of another person by a court judgment, including a settlement or an arbitrator's award approved by court;

(ii) reasonable litigation expenses, including attorneys' fees, expended by an Office Holder or charged to the Office Holder by a court, in a proceeding instituted against the Office Holder by the Company or on its behalf or by another person, or in a criminal charge from which the Office Holder was acquitted, or in a criminal proceeding in which the Office Holder was convicted of an offense that does not require proof of criminal intent.

The Company may (aa) undertake in advance to indemnify an Office Holder as aforesaid, provided that the undertaking is limited to categories of events which in the opinion of the Board of Directors can be foreseen when the undertaking to indemnify is given, and to an amount set by the Board of Directors as reasonable under the circumstances and (bb) indemnify an Office Holder as aforesaid following a determination to this effect made by the Company after the occurrence of the event in respect of which such Office Holder will be indemnified.

(d) Subject to the provisions of the Companies Law, the Company may enter into a contract for the insurance of all or part of the liability of any Office Holder imposed on the Office Holder by reason of an act performed in his or her capacity as an Office Holder, in respect of each of the following:

(i) a breach of his or her duty of care to the Company or to another person;

(ii) a breach of his or her duty of loyalty to the Company, provided that the Office Holder acted in good faith and had reasonable cause to assume that such act would not prejudice the interests of the Company;

(iii) a financial obligation imposed on him or her in favor of another person.

(e) The provisions of Article 70 above are not intended, and shall not be interpreted, to restrict the Company in any manner in respect of the procurement of insurance and/or in respect of indemnification for and/or exculpating from liability (i) in connection with any person who is not an Office Holder, including, without limitation, any employee, agent, consultant or contractor of the Company who is not an Office Holder, and/or (ii) in connection with any Office Holder to the extent that such insurance and/or indemnification is not specifically prohibited under law; provided that the procurement of any such insurance and/or the provision of any such indemnification for and/or such exculpating from liability shall be approved by the Audit Committee of the Company.

WINDING UP

71. *Winding Up*

If the Company be wound up, then, subject to applicable law and the rights of the holders of shares with special rights upon winding up, the assets of the Company available for distribution among the members shall be distributed to them in proportion to the nominal value of their respective holdings of the shares in respect of which such distribution is being made.

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Exhibit 4(a)(2)

ASSET PURCHASE AGREEMENT

BY AND BETWEEN

EASTMAN KODAK COMPANY

AND

SCITEX DIGITAL PRINTING, INC.,

SCITEX CORPORATION, LTD.,

AND

SCITEX DEVELOPMENT CORP.

November 24, 2003

TABLE OF CONTENTS

	Page
1. <u>Definitions</u>	1
2. <u>Basic Transaction</u>	11
(a) <u>Purchase and Sale of Assets</u>	11
(b) <u>Assumption of Liabilities</u>	11
(c) <u>Purchase Price</u>	11
(d) <u>The Closing</u>	12
(e) <u>Deliveries at the Closing</u>	12
(f) <u>Allocation of Consideration</u>	12
(g) <u>Agreements Not Assigned</u>	13
3. <u>Representations and Warranties of the Sellers</u>	13
(a) <u>Incorporation; Subsidiaries</u>	13
(b) <u>Authorization; Execution and Delivery; Valid and Binding Agreement</u>	14
(c) <u>Noncontravention</u>	14
(d) <u>Brokers' Fees</u>	15
(e) <u>Title to Assets; Capital Stock</u>	15
(f) <u>Financial Statements</u>	16
(g) <u>Events Subsequent to Most Recent Fiscal Quarter End</u>	16
(h) <u>Title to Properties</u>	16
(i) <u>Legal Compliance</u>	17
(j) <u>Intellectual Property</u>	17
(k) <u>Tangible Assets</u>	19
(l) <u>Contracts relating to the Business</u>	19
(m) <u>Litigation</u>	20
(n) <u>Labor Relations</u>	21
(o) <u>Employee Benefits</u>	21
(p) <u>Environmental, Health, and Safety Matters</u>	23
(q) <u>Permits and Authorization</u>	23
(r) <u>Assets of the Business</u>	24
(s) <u>Undisclosed Liabilities</u>	24
(t) <u>Protection of Proprietary Information</u>	24
(u) <u>Taxes</u>	25
(v) <u>Insurance</u>	25
(w) <u>Related-Party Transactions; Affiliates</u>	25
(x) <u>Warranties</u>	26
(y) <u>Product Liability</u>	26
(z) <u>DISCLAIMER OF WARRANTIES</u>	26
4. <u>Representations and Warranties of the Buyer</u>	26
(a) <u>Organization of the Buyer</u>	26
(b) <u>Authorization; Execution and Delivery; Valid and Binding Agreement</u>	27

(c)	<u>Noncontravention</u>	27
(d)	<u>Brokers' Fees</u>	27
(e)	<u>Litigation</u>	27
(f)	<u>Financial Ability</u>	27
5.	<u>Covenants of the Sellers and the Buyer</u>	28
(a)	<u>General</u>	28
(b)	<u>Notices and Consents</u>	28
(c)	<u>Conduct of the Business</u>	29
(d)	<u>Access</u>	31
(e)	<u>Notice of Developments</u>	31
(f)	<u>Employees</u>	31
(g)	<u>WARN Act</u>	33
(h)	<u>Tax Matters</u>	34
(i)	<u>Trademarks; Tradenames</u>	35
(j)	<u>Confidentiality</u>	36
(k)	<u>Non-Competition</u>	38
(l)	<u>Exclusivity</u>	39
(m)	<u>Insurance</u>	40
6.	<u>Conditions to Obligation to Close</u>	40
(a)	<u>Conditions to Obligation of the Buyer</u>	40
(b)	<u>Conditions to Obligation of the Sellers</u>	41
7.	<u>Termination</u>	42
(a)	<u>Termination of Agreement</u>	42
(b)	<u>Effect of Termination.</u>	43
(c)	<u>Payment Upon Certain Termination.</u>	44
8.	<u>Survival; Indemnification</u>	44
(a)	<u>Survival of Representations and Warranties and Covenants</u>	44
(b)	<u>Indemnification by the Sellers</u>	44
(c)	<u>Indemnification by the Buyer</u>	45
(d)	<u>Method of Asserting Claims</u>	45
(e)	<u>Other Indemnification Provisions</u>	46
(f)	<u>Limitations on Indemnification</u>	47
(g)	<u>Mitigation</u>	48
(h)	<u>Subrogation</u>	48
9.	<u>Miscellaneous</u>	48
(a)	<u>Press Releases and Public Announcements</u>	48
(b)	<u>No Third-Party Beneficiaries</u>	49
(c)	<u>Entire Agreement</u>	49
(d)	<u>Succession and Assignment</u>	49
(e)	<u>Counterparts</u>	49
(f)	<u>Headings</u>	49
(g)	<u>Notices</u>	49

(h)	<u>Governing Law; Venue; Jurisdiction</u>	51
(i)	<u>Amendments and Waivers</u>	51
(j)	<u>Severability</u>	51
(k)	<u>Expenses</u>	52
(l)	<u>Construction</u>	52
(m)	<u>Incorporation of Exhibits and Schedules</u>	52
(n)	<u>Bulk Transfer Laws</u>	52
(o)	<u>Reliance</u>	52
(p)	<u>Facsimiles</u>	53
(q)	<u>Guaranty</u>	53
(r)	<u>Subsequent Closing</u>	53

EXHIBITS

Exhibit	Exhibit Name
A	Tax Custody Agreement
B	Indemnification Custody Agreement
C	Skadden, Arps, Slate, Meagher & Flom LLP Opinion
D	Goldfarb, Levy, Eran & Co. Opinion
E	Harter, Secrest & Emery LLP Opinion

ASSET PURCHASE AGREEMENT

This Asset Purchase Agreement (this "Agreement"), dated as of November 24, 2003, is made by and among Eastman Kodak Company, a New Jersey corporation (the "Buyer"), Scitex Digital Printing, Inc., a Massachusetts corporation ("SDP"), Scitex Corporation, Ltd., a corporation organized under the laws of Israel ("SCL" and, together with SDP, the "Sellers" and each a "Seller"), and Scitex Development Corp., a Massachusetts corporation ("SDC"). Each of the entities in the preceding sentence are referred to collectively herein as the "Parties" and individually as a "Party."

WHEREAS, the Sellers, either themselves or through some or all of their Subsidiaries, are engaged in the business of designing, developing, manufacturing, marketing and supporting products for the commercial and transaction printing market, including high-speed inkjet printing systems (the "Business"; for purposes of clarity, it is expressly agreed and understood by the Parties that the Business shall not include any business, activities, assets and properties of SCL and its Subsidiaries and Affiliates other than the business, activities, assets and properties of (a) SDP and its Subsidiary, (b) Scitex Digital Printing Nederlands BV, a company organized under the laws of the Netherlands ("SDP Netherlands") and its Subsidiaries, (c) Scitex Digital Printing UK Limited, a private limited company organized under the laws of the United Kingdom ("SDP UK"), (d) Scitex Digital Printing (Asia Pacific) Pte. Ltd., a private limited liability company organized under the laws of Singapore ("SDP Singapore"), and (e) Scitex Digital Printing Japan K.K., a corporation organized under the laws of Japan ("SDP Japan")); and

WHEREAS, the Sellers desire to sell and assign to the Buyer, and the Buyer desires to purchase and assume from the Sellers, on the terms and subject to the conditions set forth in this Agreement, the Acquired Assets and Assumed Liabilities.

NOW, THEREFORE, in consideration of the premises and the mutual promises herein made, and in consideration of the representations, warranties, and covenants herein contained, the Parties agree as follows:

1. Definitions.

“Acquired Assets” means all of the Sellers’ right, title, and interest (subject to Permitted Security Interests) in and to all of the Sellers’ assets and rights relating to the Business, including the following assets of the Sellers that are (in the case of SCL, primarily) used in, related to, or arise out of the Business, but which shall not include any of the Excluded Assets: (a) Leases and Third Party Leases that are listed on §3(h) of the Disclosure Schedule (the “Assumed Leases”), improvements, fixtures, and fittings thereon, and easements, rights-of-way, and other appurtenants thereto (such as appurtenant rights in and to public streets), (b) tangible personal property (and any related product warranties (including machinery, equipment, inventories of raw materials and supplies, manufactured and purchased parts, goods in process and finished goods, furniture, automobiles, trucks, tractors, and trailers)), (c) all Intellectual Property, (d) agreements, contracts, instruments, guaranties, other similar arrangements, and rights thereunder, including those listed on §3(l) of the Disclosure Schedule (collectively, the “Assumed Contracts”), (e) accounts receivable, notes receivable, and other receivables, (f) claims, deposits, prepayments, refunds, unclaimed funds, causes of action, rights of recovery, rights of set off, and rights of recoupment, (g) Governmental Authorizations, (h) books, records, ledgers, files, documents, customer lists, correspondence, lists, plans, architectural plans, drawings, and specifications, creative materials, advertising and promotional materials, studies, reports, technical reports, laboratory data and laboratory notebooks, models, prototypes, bread boards, brass boards, and other printed or written materials, (i) technical and descriptive materials (in whatever form relating to the acquisition, design, development, use or maintenance of the products and services sold by or offered for sale by the Business), (j) all Inventory of the Sellers, (k) all software programs in any media, including any compilers, tools libraries, source codes, debuggers and higher level or proprietary language, (l) all claims that the Sellers may have against any Person relating to or arising out of any Acquired Asset, including rights to recover damages, settlements, rights to refunds, claims for compensation or benefits, insurance claims, claims of infringement or past infringement of any Intellectual Property rights and royalty or similar rights related to any Intellectual Property, (m) rights in and with respect to the assets associated with the Assumed Plans or Employee Benefit Plans of any Seller Subsidiary, (n) all of the issued and outstanding shares of capital stock of (1) SDP Australia (the “Australia Shares”), (2) SDP Netherlands (the “Netherlands Shares”), (3) SDP UK (the “UK Shares”), (4) SDP Singapore (the “Singapore Shares”), and (5) SDP Japan (the “Japan Shares”), (o) with respect to the Seller Subsidiaries only, (1) the corporate charter, qualifications to conduct business as a foreign corporation, arrangements with registered agents relating to foreign qualifications, taxpayer and other identification numbers, seals, minute books, stock transfer books, blank stock certificates, and other documents relating to the organization, maintenance, and existence of the Seller Subsidiaries as corporate entities and (2) all cash, cash equivalents and bank accounts of SDP Subsidiaries, and (p) cash or cash equivalents of SDP in excess of \$12,000,000.

“Adverse Consequences” means all actions, losses, suits, proceedings, judgments, orders, damages, dues, penalties, interest, costs, fines, expenses, and fees, including reasonable attorneys’ fees and expenses.

“Affiliate” has the meaning set forth in Rule 12b-2 of the regulations promulgated under the Securities Exchange Act.

“Agreement” has the meaning set forth in the preface above.

“Allocation” has the meaning set forth in §2(g) herein.

“Assumed Contracts” has the meaning set forth in this §1.

“Assumed Leases” has the meaning set forth in this §1.

“Assumed Liabilities” means all Liabilities of the Sellers relating to or arising out of the Business or the Acquired Assets on the Closing Date, except the Retained Liabilities.

“Assumed Plans” means (i) SDP’s Executive Employee Severance Pay Plan, as amended and restated on August 26, 2003, including all appendices thereto, (ii) SDP’s Employee Severance Pay Plan dated February 1, 1999, (iii) the Deferred Compensation Plan, (iv) Severance Letters from SDP to Michael Codispoti, Marva Cosby, Stephen Henriksen, Richard Klein, Wayne Lemmerbrock, Eliezer Lubitch, Kazem Samandari, Nachum Shamir and Yosef Zylberberg each dated September 2, 2003 (only to the extent such Persons become Transferred Employees), and (v) any Employee Benefit Plan assumed by the Buyer in accordance with §5(f)(v) herein.

“Antitrust Laws” means any antitrust or trade regulatory laws of any Governmental Entity.

“Australia Shares” has the meaning set forth in this §1.

“Basket Amount” has the meaning set forth in §8(f)(i) herein.

“Business” has the meaning set forth in the preface above.

“Buyer” has the meaning set forth in the preface above.

“Buyer Disclosure Schedule” has the meaning set forth in §4 herein.

“Buyer Indemnified Parties” has the meaning set forth in §8(b)(i) herein.

“Buyer Losses” has the meaning set forth in §8(b)(i) herein.

“Cap Amount” has the meaning set forth in §8(f)(i) herein.

“Claim” has the meaning set forth in §8(d)(i) below.

“Closing” has the meaning set forth in §2(e) herein.

“Closing Date” has the meaning set forth in §2(e) herein.

“Code” means the Internal Revenue Code of 1986, as amended.

“Confidential Information” has the meaning set forth in §5(j)(iii).

“Confidentiality Agreement” has the meaning set forth in §9(c) herein.

“Deferred Compensation Plan” means the Scitex Digital Printing, Inc. Supplemental Deferred Compensation Plan, including the Adoption Agreement related thereto dated December 20, 1995, as amended on August 26, 2003.

“Disclosing Party” has the meaning set forth in §5(j)(i) herein.

“Disclosure Schedule” means the Sellers’ Disclosure Schedule accompanying this Agreement as defined in §3 herein.

“Employee” means each individual employed by the Seller as of the Closing Date including those employees of the Seller who are on vacation, short-term disability or other approved leave of absence from employment on such date; provided, however, that persons who are on short-term disability, vacation or leave of absence will not become “Employees” unless they return to active employment within four (4) weeks after the Closing Date and that persons on long-term disability are not “Employees.”

“Employee Benefit Plan” has the meaning set forth in §3(o)(i) herein.

“Environmental, Health, and Safety Requirements” shall mean all federal, state, local and foreign statutes and regulations concerning public health and safety, and pollution or protection of the environment, including without limitation all those relating to the presence, use, production, generation, handling, transportation, treatment, storage, disposal, distribution, discharge, release, control, or cleanup of any Hazardous Substances.

“Equity Interest” has the meaning set forth in §3(e)(iii) herein.

“ERISA” means the Employee Retirement Income Security Act of 1974, as amended.

“ERISA Affiliate” has the meaning set forth in §3(o)(i) herein.

“Excluded Assets” means (i) the corporate charter, qualifications to conduct business as a foreign corporation, arrangements with registered agents relating to foreign qualifications, taxpayer and other identification numbers, seals, minute books, stock transfer books, blank stock certificates, and other documents relating to the organization, maintenance, and existence of the Sellers as corporate entities, (ii) all deferred Tax assets and Tax attributes of the Sellers, including all net operating losses, deductions and credits, refunds, overpayments and prepayments of Taxes, (iii) all Tax Returns of the Sellers and all books and records relating thereto, (iv) all rights of the Sellers under this Agreement (or under any other agreement between the Sellers on the one hand and the Buyer on the other hand entered into on or after the date of this Agreement), (v) any Employee Benefit Plan or employment agreement (other than provisions or agreements as to confidentiality or proprietary rights) between SDP and any employee, other than the Assumed Plans and any Employee Benefit Plan of any Seller Subsidiary and all funds and accounts held thereunder and assets and liabilities related thereto, (vi) the capital stock of the Sellers or of any Affiliate of the Sellers, other than the Seller Subsidiaries; (vii) any personnel files or records related to any employee of any Seller, (viii) \$12,000,000 in cash and cash equivalents of SDP, (ix) bank accounts of the Sellers (except for those bank accounts of SDP reasonably requested by the Buyer and feasibly transferable by SDP), (x) the Seller Trademarks, and (xi) any Liability from SDP or SCL or any of their respective Subsidiaries (other than the Seller Subsidiaries).

“Excluded Business” has the meaning set forth in §9(r) herein.

“Financial Statements” has the meaning set forth in §3(f) herein.

“GAAP” means United States generally accepted accounting principles, methods and practices set forth in the opinions and pronouncements of the Accounting Principles Board and the American Institute of Certified Public Accountants, and statements and pronouncements of the Financial Accounting Standards Board, the Securities and Exchange Commission or of such other Person as may be approved by a significant segment of the U.S. accounting profession, as in effect on the date of this Agreement.

“General Liabilities Account” has the meaning set forth in §2(c)(ii).

“General Survival Period” has the meaning set forth in §8(a) herein.

“Governmental Authorizations” means approvals, permits, licenses, orders, registrations, certificates, variances and similar rights obtained from Governmental Entities.

“Governmental Entity” has the meaning set forth in §3(c) herein.

“Hart-Scott-Rodino Act” means the Hart-Scott-Rodino Antitrust Improvements Act of 1976, as amended.

“Hazardous Substances” means any flammable explosives, radon, radioactive materials, asbestos, urea formaldehyde foam insulation, polychlorinated biphenyls, petroleum products, methane, hazardous materials, hazardous wastes, hazardous or toxic substances, chemical substances or mixtures and pesticides as defined in the Comprehensive Environmental Response, Compensation and Liability Act of 1980, as amended (42 U.S.C. Section 9601 et seq.), the Toxic Substances Control Act (15 U.S.C. Sections 2601 et seq.), the Hazardous Materials Transportation Act, as amended (49 U.S.C. Sections 1801 et seq.), the Resource Conservation and Recovery Act, as amended (42 U.S.C. Sections 6901 et seq.), the Federal Insecticide, Fungicide and Rodenticide Act (7 U.S.C. Sections 136 et seq.) and any other applicable environmental Laws.

“Income Tax” means any (i) federal, state, local or foreign income tax and (ii) all interest, penalties, fines, additions to tax or additional amounts imposed by any taxing authority in connection with any item described in clause (i) above.

“Indemnification Custody Agreement” has the meaning set forth in §2(c)(ii).

“Indemnified Party” has the meaning set forth in §8(d) herein.

“Indemnifying Party” has the meaning set forth in §8(d) herein.

“Intellectual Property” means (i) all patents and patent applications, together with all divisions, reissues, continuations, continuations-in-part, revisions, revivals, extensions, substitutions, and reexaminations thereof, (ii) all trademarks, service marks, trade dress, logos, trade names, Internet domain names and corporate names, together with all goodwill associated therewith, and all applications, registrations, and renewals in connection therewith, (iii) all works of authorship, all copyrights related thereto, and all applications, registrations, and renewals in connection therewith, (iv) all inventions, improvements, know-how, discoveries, disclosures, technology, methods, drawings, designs, mask works, technical processes, developments, techniques, formulae, work papers, algorithms, technical data, and trade secrets and other proprietary information, (v) all computer software (including data and related documentation), and (vi) the right to make derivative works of, and any moral rights related to, the foregoing items.

“Inventory” means all inventory held for resale and all other raw materials, work in process, finished products, spares, wrapping, supply and packaging items related to the Business.

“Japan Shares” has the meaning set forth in this § 1.

“Knowledge” means (i) in the case of the Sellers, the actual knowledge of the Sellers’ employees listed on § 1 of the Disclosure Schedule or such knowledge which should have been obtained by such Persons after reasonable inquiry, which shall include the reasonable inquiry of Gary Froelich and Joan Haushalter as to matters relevant to their services on behalf of SDP, or (ii) in the case of the Buyer, the actual knowledge of the Buyer or such knowledge which should have been obtained by the Buyer after reasonable inquiry.

“Law” has the meaning set forth in § 3(c) herein.

“Leased Real Property” means all interests in real property pursuant to the Leases.

“Leases” means the real property leases, subleases, licenses and use or occupancy agreements pursuant to which any Seller or Seller Subsidiary is the lessee, sublessee, licensee, user or occupant of real property, or interests therein in connection with the conduct of the Business as of the Closing Date.

“Liability” means any direct or indirect liability, obligation, damage, or indebtedness (whether known or unknown, whether asserted or unasserted, whether absolute or contingent, whether accrued or unaccrued, whether liquidated or unliquidated, and whether due or to become due).

“Material Adverse Effect” means such state of facts, event, change or effect that has had or would reasonably be expected to have, individually or in the aggregate, a material adverse effect on the Business, taken as a whole (except for any state of facts, event, change or effect (i) relating to general economic conditions in any of the geographic areas in which the Sellers operate, (ii) relating to conditions caused by acts of terrorism or war (whether or not declared) to the extent not directly causing physical damage to the Acquired Assets, (iii) affecting Persons in the industries in which the Sellers operate to the extent the Business is not disproportionately affected as compared to other industry participants, (iv) which arise from, are related to, or have been reflected in this Agreement or the Disclosure Schedule (in the case of the Disclosure Schedule, only to the extent of the significance and magnitude which are accurately reflected or readily apparent on the face of the disclosure made in the relevant Disclosure Schedule), or (v) which become applicable as a result of the business or activities in which the Buyer is or proposes to be engaged, or as a result of any acts or omissions by, the Buyer), or that would reasonably be expected to materially impair the ability of the Seller to perform its obligations under, or to consummate the transactions contemplated by, this Agreement.

“Most Recent Balance Sheet” means the balance sheet contained within the Most Recent Financial Statements.

“Most Recent Financial Statements” has the meaning set forth in §3(f) herein.

“Most Recent Fiscal Quarter End” has the meaning set forth in §3(f) herein.

“Most Recent Fiscal Year End” has the meaning set forth in §3(f) herein.

“Nederlands Shares” has the meaning set forth in this §1.

“Non-Income Tax” means any tax other than an Income Tax.

“Non-Income Tax Return” means any Tax Return filed in respect of Non-Income Taxes.

“Ordinary Course of Business” means the ordinary course of business consistent with past practice.

“Parties” has the meaning set forth in the preface above.

“Permitted Security Interest” has the meaning set forth in this §1.

“Person” means an individual, a partnership, a corporation, a limited liability company, an association, a joint stock company, a trust, a joint venture, an unincorporated organization, or a governmental entity (or any department, agency, or political subdivision thereof).

“Purchase Price” has the meaning set forth in §2(c) herein.

“Purchase Transaction” means (i) any direct or indirect acquisition, whether by purchase, merger, consolidation, stock sale (primary or secondary) or any other structure which would result in the direct or indirect sale of any substantial part of any of SDP’s or a Seller Subsidiary’s capital stock, assets or Business, in either one or a series of transactions outside the Ordinary Course of Business, or (ii) any arrangement whereby direct or indirect effective operating control of SDP’s or any Seller Subsidiary’s assets, consolidated business or a substantial portion thereof is granted to another party.

“Receiving Party” has the meaning set forth in §5(j)(i) herein.

“Release of Hazardous Material” means any actual or threatened spilling, leaking, pumping, pouring, emitting, emptying, discharging, injecting, escaping, leaching, dumping, or disposing of any Hazardous Substance into the environment (including the abandonment or discarding of barrels, containers, and other closed receptacles containing, or which may have contained, any Hazardous Substance).

“Release Event” means the close of business on the twentieth (20th) business day following the Closing Date, unless the Buyer establishes that a notice of lien with respect to the Acquired Assets was filed prior to the Closing Date by the IRS in accordance with Section 6323(f) of the Code and Treas. Reg. §301.6323(f)-1 (a “Tax Lien Notice”), in which case, a Release Event shall be the earliest to occur of (i) a withdrawal of the Tax Lien Notice pursuant to §6323 of the Code or the Treas. Regs. thereunder, (ii) a final determination that the Tax Lien Notice was defective or was otherwise not valid as against the Buyer by a court or agency of competent jurisdiction, (iii) the payment or other settlement in full of the tax claim which gave rise to the Tax Lien Notice or (iv) a written acknowledgement of the Buyer that the Tax Lien Notice is not valid against it.

“Required Consents” has the meaning set forth in §5(b)(i) herein.

“Retained Liabilities” means (i) any Liability of any Seller for any Income Taxes for any period, (ii) any Liability of any Seller or Seller Subsidiary arising from any obligation of such Seller or Seller Subsidiary to indemnify any Person by reason of the fact that such Person was a director or officer of any Seller or its Subsidiaries or was serving at the request of any such entity as a partner, trustee, director or officer of another entity (whether such indemnification is for judgments, damages, penalties, fines, costs, amounts paid in settlement, losses, expenses, or otherwise and whether such indemnification is pursuant to any statute, charter document, bylaw, agreement, or otherwise), (iii) any intercompany Liability among the Sellers and any of their respective Subsidiaries and/or Creo Inc. (other than solely among the Seller Subsidiaries), (iv) any Liability of any Seller or Seller Subsidiary for costs and expenses (other than one-half of all Transfer Taxes), including finder’s fees, incurred in connection with this Agreement and the transactions contemplated hereby, (v) Liabilities of any Seller or Seller Subsidiary arising under foreign, federal or state securities laws, (vi) any Liability or obligation of any Seller or Seller Subsidiary under this Agreement (or under any other agreement between any Seller on the one hand and the Buyer on the other hand entered into on or after the date of this Agreement and prior to Closing), (vi) any Liability for severance with respect to any employee who does not become a Transferred Employee because he/she does not accept employment with the Buyer or its Affiliates pursuant to an offer made in accordance with §5(f) below, and (vii) any Liability related to any Employee Benefit Plan or employment agreement (other than provisions or agreements as to confidentiality or proprietary rights) between SDP and any employee, other than the Assumed Plans or any Employee Benefit Plan of any Seller Subsidiary.

“SCL” has the meaning set forth in the preface above.

“SDC” has the meaning set forth in the preface above.

“SDP” has the meaning set forth in the preface above.

“SDP Australia” means Scitex Digital Printing Pty Ltd., a private limited company organized under the laws of Australia.

“SDP Japan” has the meaning set forth in the preface above.

“SDP Netherlands” has the meaning set forth in the preface above.

“SDP Singapore” has the meaning set forth in the preface above.

“SDP UK” has the meaning set forth in the preface above.

“Securities Act” means the Securities Act of 1933, as amended.

“Securities Exchange Act” means the Securities Exchange Act of 1934, as amended.

“Security Interest” means any mortgage, pledge, lien, encumbrance, charge, or other security interest, other than (A) mechanics’, carriers’, workers’, repairers’, materialmen’s, warehousemen’s and other similar liens for sums not yet due and payable and other similar liens that are being contested in good faith, (B) liens for Taxes not yet due or payable (other than liens for United States Federal Income Taxes of SDP or SDC in respect of which an IRS assessment has been made), (C) liens securing rental payments under capital lease arrangements, and (D) installments of special assessments not yet due and payable, recorded easements, covenants or other restrictions, utility easements, building restrictions, set-back requirements, zoning restrictions and other easements and restrictions generally with respect to property of a similar character and other matters affecting title which do not have a material and adverse impact on the current use or occupancy of the property subject thereto; clauses (A) through (D) above shall collectively be referred to herein as “Permitted Security Interests”.

“Sell-Off Period” has the meaning set forth in §5(i)(iii) herein.

“Seller” and “Sellers” has the meaning set forth in the preface above.

“Seller Indemnified Parties” has the meaning set forth in §8(c)(i) herein.

“Seller Losses” has the meaning set forth in §8(c)(i) herein.

“Seller Subsidiaries” has the meaning set forth in §3(a) herein.

“Seller Trademarks” has the meaning set forth in §5(i)(i) herein.

“Shares” means, collectively, the Australia Shares, the Netherlands Shares, UK Shares, the Singapore Shares and the Japan Shares.

“Small Claim Amount” has the meaning set forth in §8(f)(i) herein.

“Singapore Shares” has the meaning set forth in this §1.

“Special Survival Period” has the meaning set forth in §8(a) herein.

“Subsidiary” means any Person with respect to which a specified Person (or a Subsidiary thereof) owns a majority of the common stock or similar ownership interests or has the power to vote or direct the voting of sufficient ownership interests to elect a majority of the directors or persons filling a similar role with respect to such Person.

“Superior Proposal” means any offer not solicited in violation of the provisions of §5(l) and made by a third party to consummate a Purchase Transaction, which the board of directors of SCL determines in good faith has a reasonable likelihood of closing and is otherwise on terms which the board of directors of SCL determines in good faith (after consultation with a financial advisor and considering such other matters as it deems relevant) would, if consummated, result in a transaction more favorable to the stockholders of SCL than the transaction contemplated hereby, taking into account, in the reasonable good faith judgment of the board of directors of SCL after consultation with its financial advisor, the financial means of the Person making the Superior Proposal to consummate such transaction.

“SWDA” has the meaning set forth in §3(p)(iv) herein.

“Tax” or “Taxes” means (i) all federal, state, local or foreign taxes, charges, fees, imposts, levies, duties or other assessments, including, without limitation, all net income, alternative minimum or add-on tax, gross income, gross receipts, capital, sales, use, ad valorem, value added, transfer, franchise, profits, inventory, capital stock, license, security, employment, unemployment, withholding, excise, severance, stamp, occupation, property and estimated taxes, sewer taxes, customs duties, fees, assessments and charges of any kind whatsoever, and (ii) all interest, penalties, fines, additions to tax or additional amounts imposed by any taxing authority in connection with any item described in clause (i) above.

“Tax Account” has the meaning set forth in §2(c)(i) herein.

“Tax Custody Agreement” has the meaning set forth in §2(c)(i).

“Tax Lien Notice” has the meaning set forth in this §1.

“Tax Return” means any report, return, statement, declarations, estimates and forms (including any related or supporting information) or other written information required to be supplied to any taxing authority in connection with Taxes.

“Third Party Lease” means each lease, sublease or other right of occupancy affecting or relating to a property used or held for use in the conduct of the Business as of the Closing Date in which any Seller or Seller Subsidiary is the landlord, either pursuant to the terms of a lease or sublease agreement.

“Transfer Tax Returns” has the meaning set forth in §5(h)(i).

“Transfer Taxes” has the meaning set forth in §5(h)(i) herein.

“Transferred Employee” has the meaning set forth in §5(f)(i) herein.

“UK Shares” has the meaning set forth in this §1.

“WARN Act” has the meaning set forth in §5(g) herein.

2. Basic Transaction.

(a) Purchase and Sale of Assets. On and subject to the terms and conditions of this Agreement, the Buyer agrees to purchase from the Sellers, and the Sellers agree to sell, transfer, convey, and deliver to the Buyer, all of the Acquired Assets at the Closing for the consideration specified below in this §2.

(b) Assumption of Liabilities. On and subject to the terms and conditions of this Agreement, the Buyer agrees to assume and become responsible for the Assumed Liabilities at the Closing. The Buyer will not assume or have any responsibility, however, with respect to the Retained Liabilities.

(c) Purchase Price. The aggregate purchase price will be Two Hundred and Fifty Million Dollars (\$250,000,000) (the “Purchase Price”). On the terms and subject to the conditions set forth herein, at the Closing, the Buyer will pay the Initial Purchase Price as follows:

(i) fifteen million dollars (\$15,000,000) in immediately available funds by wire transfer to a U.S. bank account of SDC as designated in writing by SDP at least two (2) business days prior to the Closing (the “Tax Account”), which account shall be maintained in accordance with the terms of the Custody Agreement attached hereto as Exhibit A (the “Tax Custody Agreement”) prior to a Release Event;

(ii) ten million dollars (\$10,000,000) in immediately available funds by wire transfer to a U.S. bank account of SDC or SCL as designated in writing by SDP at least two (2) Business days prior to the Closing (the “General Liabilities Account”), in accordance with the terms of the Custody Agreement attached hereto as Exhibit B (the “Indemnification Custody Agreement”); and

(iii) the amount of the balance of the Purchase Price by wire transfer of immediately available funds to an account designated in writing by SDP or SCL at least (2) two business days prior to the Closing.

(d) The Closing. The closing of the transactions contemplated by this Agreement (the “Closing”) shall take place at the offices of Skadden, Arps, Slate, Meagher & Flom LLP, Four Times Square, New York, New York 10036, commencing at 9:00 a.m. local time on the second business day following the satisfaction or waiver of all conditions to the obligations of the Parties to consummate the transactions contemplated hereby (other than conditions with respect to actions the respective Parties will take at the Closing itself) or such other date as the Parties may mutually determine (the “Closing Date”).

(e) Deliveries at the Closing. At the Closing, (i) the Sellers will deliver to the Buyer the various certificates, instruments, and documents referred to in §6(a) below; (ii) the Buyer will deliver to the Sellers the various certificates, instruments, and documents referred to in §6(b) below; (iii) the Sellers will execute, acknowledge (if appropriate), and deliver to the Buyer (A) assignments (including Assumed Lease, Assumed Contract and Intellectual Property transfer documents) in customary form to be reasonably agreed by the Parties, (B) a non-foreign certification for SDP in customary form to be reasonably agreed by the Parties, (C) a bill of sale with respect to the Acquired Assets in customary form to be reasonably agreed by the Parties, and (D) such other instruments of sale, transfer, conveyance, and assignment as the Buyer and its counsel reasonably may request; (iv) the Buyer and Sellers will execute, acknowledge (if appropriate), and deliver to each other (A) an assignment and assumption agreement in customary form to be reasonably agreed by the Parties, to assign the Assumed Liabilities to the Buyer, (B) the Tax Custody Agreement and (C) the Indemnification Custody Agreement; and (v) the Buyer will deliver to the Sellers (A) such other instruments of assumption as the Sellers and their counsel reasonably may request; and (B) the consideration specified in §2(c) above.

(f) Allocation of Consideration. As promptly as reasonably practicable after the Closing, the Sellers and the Buyer shall reasonably agree to allocate the Purchase Price and Assumed Liabilities in accordance with §2(f) of the Disclosure Schedule (the “Allocation”), which section of the Disclosure Schedule shall be attached when determined by the Parties. Each of the Sellers and the Buyer shall (i) be bound by the Allocation for purposes of determining any Taxes, (ii) timely file all forms (including Internal Revenue Service Form 8594) and Tax Returns required to be filed in connection with the Allocation, (iii) prepare and file, and cause its Affiliates to prepare and file, their respective Tax Returns on a basis consistent with the Allocation, and (iv) take no position, and cause its Affiliates to take no position, inconsistent with the Allocation on any applicable Tax Return, in any proceeding before any taxing authority or in any report made for Tax purposes. In the event that the Allocation is disputed by any taxing authority, the Party receiving notice of the dispute shall promptly notify and consult with the other Party and keep the other Party reasonably apprised of material developments concerning resolution of such dispute.

(g) Agreements Not Assigned. To the extent that the transfer or assignment of any Acquired Asset relating to the Business shall require the consent of another party thereto, this Agreement shall not constitute an agreement to transfer or assign the same if an attempted assignment would constitute a breach thereof, but the Sellers and the Buyer agree to use reasonable commercial efforts to obtain the written consent of the other parties to the transfer or assignment of such Acquired Asset (it being understood and agreed that the Sellers and the Buyer shall not be required to make any payment or furnish any other material consideration to obtain any such consent), and if any such consent with respect to an Acquired Asset (other than any de minimis Acquired Asset) is not obtained prior to Closing, the Parties shall in good faith effectuate such arrangements as are necessary to put the Parties in as close an economic position as commercially practicable to that which the Parties would have been in had consents been obtained. The Parties hereby acknowledge and agree that any such arrangements would require, among other things, (i) SDP to remain subject to its obligations under any contract with respect to which a consent to assignment is required under the applicable contract but has not been delivered, (ii) the Buyer to promptly reimburse the Sellers for any and all costs, expenses or losses, including reasonable attorneys' fees, incurred by the Sellers as a result of the Sellers' taking, at the request of the Buyer, legal or other action on behalf of or for the benefit of the Buyer with respect to such contracts or as a result of the Buyer's failure to perform the Sellers' obligations under such contracts arising on or after the Closing and to indemnify the Sellers for any Adverse Consequence relating to the Buyer's failure to so perform, and (iii) the Sellers to remit to the Buyer any payments or refunds received by the Sellers from any party under the applicable contract, in each of the cases described in clauses (i)-(iii), all in a manner consistent with the purposes and intent of this Agreement. If and when any such consent is obtained in a form and substance reasonably acceptable to the Buyer, the Sellers shall promptly transfer or assign, as applicable, such Acquired Asset to the Buyer without payment of additional consideration. For purposes of this Agreement, it shall be reasonable for the Buyer not to accept the form and substance of any consent if it (x) changes or modifies, in any material respect, any Acquired Asset, (y) results in any material cost to the Buyer, or (z) imposes any material and adverse conditions on the Buyer with respect to its running the Business or use of an Acquired Asset.

3. Representations and Warranties of the Sellers. The Sellers make the following representations and warranties to the Buyer as of the date of this Agreement and as of the Closing Date, which representations and warranties are qualified (subject to §9(m)(iii) below) as to any documents, materials or other matters disclosed on or referred to in the Sellers' disclosure schedule accompanying this Agreement (the "Disclosure Schedule"):

(a) Incorporation; Subsidiaries. Each Seller and each Seller Subsidiary is a corporate entity duly organized, validly existing and in good standing (with respect to those jurisdictions that recognize the concept of good standing) under the laws of the jurisdiction of its incorporation or organization, which jurisdiction for each Seller Subsidiary is set forth in §3(a) of the Disclosure Schedule. Each Seller and each Seller Subsidiary has the requisite corporate power to carry on its business as is now being conducted. Each Seller and each Seller Subsidiary is duly authorized and qualified to do business, to own, lease and operate its properties in the places and in the manner as now being conducted, except where the failure to be so authorized or qualified would not have a Material Adverse Effect. Except for ownership of the Subsidiaries set forth on §3(a) of the Disclosure Schedule (the "Seller Subsidiaries"), no Seller nor any Seller Subsidiary has, directly or indirectly, any joint venture or partnership with, or any ownership interest in, any other Person; provided, however, that SCL makes no representation, warranty, agreement or covenant of any kind pursuant to this Agreement (including, without limitation, pursuant to this §3) with respect to any Person other than (x) SDP and the Seller Subsidiaries and the Business as conducted by each such entity and (y) itself as such relate to this Agreement and the transactions contemplated hereby. Except as set forth on §3(a) of the Disclosure Schedule, SDP Australia is not and has not been a party to any agreement, contract, subcontract, lease, sublease, arrangement, commitment, license or sublicense, whether written or oral and whether with any Seller or any other Person.

(b) Authorization, Execution and Delivery; Valid and Binding Agreement. Each Seller has the corporate power and authority to execute and deliver this Agreement and to perform its obligations hereunder. The execution, delivery and performance of this Agreement by each Seller and the consummation of the transactions contemplated hereby have been duly and validly authorized by all requisite corporate proceedings of each Seller, and no other proceedings on its part are necessary to authorize the execution, delivery and performance of this Agreement. This Agreement has been duly executed and delivered by each Seller and, assuming that this Agreement is the valid and binding agreement of the Buyer, constitutes the valid and binding obligation of each Seller, enforceable in accordance with its terms, except as such enforcement may be limited by applicable bankruptcy, insolvency, reorganization, moratorium or other laws of general application affecting enforcement of creditors' rights or by general principles of equity.

(c) Noncontravention. Assuming the receipt of the consents, approvals or waivers set forth in §3(c) of the Disclosure Schedule and compliance with the applicable notice, filing, authorization and other requirements of the Hart-Scott-Rodino Act, other Antitrust Laws, the Nasdaq National Market, the Tel Aviv Stock Exchange, and foreign, federal and state securities laws, neither the execution and the delivery of this Agreement, nor the consummation of the transactions contemplated hereby (including the assignments and assumptions referred to in §2 above), will (i) violate any constitution, statute, regulation, rule, injunction, judgment, order, decree, ruling, charge, or other restriction (a "Law") of any government, governmental agency, or court (a "Governmental Entity") to which any Seller or Seller Subsidiary is subject, (ii) violate any provision of the charter or bylaws or other similar governance documents of any Seller or Seller Subsidiary, (iii) conflict with, result in a breach of, constitute a default under, result in the acceleration of, create in any party the right to accelerate, terminate, or cancel, or require any notice under any material agreement, contract, Lease, Third Party Lease, license, instrument, or other arrangement to which any Seller or Seller Subsidiary is a party or by which it is bound or to which any of its assets is subject, in each case, as of the date hereof, or (iv) require any Seller or Seller Subsidiary to give any notice to, make any filing with, or obtain any authorization, consent, or approval of any Governmental Entity in order for any Seller or Seller Subsidiary to consummate the transactions contemplated by this Agreement, except, in the case of clauses (i), (iii) and (iv), for any such violations, conflicts, breaches, defaults, rights of acceleration, terminations, cancellations, requirements or other actions or notices that would not, individually or in the aggregate, have a Material Adverse Effect.

(d) Brokers' Fees. The Sellers have no liability or obligation to pay any fees or commissions to any broker, finder, or agent with respect to the transactions contemplated by this Agreement for which the Buyer is liable or obligated.

(e) Title to Assets; Capital Stock.

(i) The Sellers have good title to, or a valid leasehold interest in, the Acquired Assets and the Seller Subsidiaries have good title to, or a valid leasehold interest in, their assets, free and clear of all Security Interests, except for properties and assets disposed of in the Ordinary Course of Business since the date of this Agreement.

(ii) The authorized capital stock of SDP Australia consists of AUD1, of which only 1 share, constituting the Australia Shares, is issued and outstanding. The authorized capital stock of SDP Netherlands consists of 2,500,000 Euro, of which only 1,250 shares, constituting the Netherlands Shares, are issued and outstanding. The authorized capital stock of SDP UK consists of £1,000, of which only 2 shares, constituting the UK Shares, are issued and outstanding. The authorized capital stock of SDP Singapore consists of SGD500,000, of which only 100,000 shares, constituting the Singapore Shares, are issued and outstanding. The authorized capital stock of SDP Japan consists of 10,000,000 Yen, of which only 200 shares, constituting the Japan Shares, are issued and outstanding. All of the Shares have been duly authorized and validly issued, are fully paid and nonassessable. The Shares are owned of record and beneficially directly or indirectly by SDP (as to SDP Australia) and SCL (as to the other Seller Subsidiaries), as applicable, free and clear of Security Interests. None of the Shares was issued in violation of any preemptive rights, rights of first refusal or similar rights. There are no voting agreements or voting trusts with respect to any of the Shares. No person or entity owns any shares of capital stock or other securities of SDP Netherlands, SDP UK, SDP Singapore or SDP Japan other than SCL, or of SDP Australia other than SDP. None of SDP Australia, SDP Netherlands, SDP UK, SDP Singapore or SDP Japan has any obligation to purchase, redeem or otherwise acquire any of its securities or any interests therein or to pay any dividend or make any distribution in respect thereof. There are no securities, options, warrants, calls, subscription rights, conversion rights or other contracts that obligate SDP, SCL, SDP Australia, SDP Netherlands, SDP UK, SDP Singapore or SDP Japan to issue, sell or otherwise cause to become outstanding any shares of capital stock or other securities of SDP Australia, SDP Netherlands, SDP UK, SDP Singapore or SDP Japan, as the case may be.

(iii) §3(e) of the Disclosure Schedule sets forth for each Subsidiary, if any, of SDP Australia, SDP Netherlands, SDP UK, SDP Singapore and SDP Japan, where applicable, the classes and amounts of its authorized capital stock, share capital and/or other equity interests and/or rights to acquire equity interests of such Person (collectively, the “Equity Interests”), the amount of its issued or outstanding Equity Interests and the beneficial owners of its issued Equity Interests. Except as set forth in §3(e) of the Disclosure Schedule, there are no Equity Interests of any Seller Subsidiary issued, reserved for issuance or outstanding. All of the Equity Interests of the Seller Subsidiaries have been duly authorized and validly issued and are fully paid and nonassessable.

(f) Financial Statements. The Sellers have provided the Buyer with copies of the following financial statements (collectively the “Financial Statements”): (i) audited balance sheets and statements of income, as of and for the fiscal years ended December 31, 2002 and December 31, 2001 (in the case of December 31, 2002, the “Most Recent Fiscal Year End”) for SDP; (ii) reviewed balance sheets and statements of income, as of and for the fiscal years ended December 31, 2002 and December 31, 2001 for the Business; and (iii) unaudited balance sheet and statement of income, (the “Most Recent Financial Statements”) as of and for the nine (9) months ended September 30, 2003 (the “Most Recent Fiscal Quarter End”) for the Business. The Financial Statements have been prepared in accordance with GAAP applied on a consistent basis throughout the periods covered thereby (except as may be stated in the notes thereto), and present fairly in all material respects the financial condition of SDP or the Business, as applicable, as of such dates and the results of operations of SDP or the Business for such periods; provided, however, that the Most Recent Financial Statements are subject to normal year-end adjustments (which are not expected, individually or in the aggregate, to be material) and lack footnotes and other presentation items.

(g) Events Subsequent to Most Recent Fiscal Quarter End. Since the Most Recent Fiscal Quarter End and through the date of this Agreement, (x) there has not been a Material Adverse Effect and (y) SDP and the Seller Subsidiaries have paid or made no dividend or other distribution of cash or cash equivalents other than to SDP or another Seller Subsidiary and none have been authorized or declared.

(h) Title to Properties.

(i) No Seller or Seller Subsidiary owns any real property. The real property demised by the Leases described in §3(h) of the Disclosure Schedule constitutes all of the real property leased by SDP or primarily used by the Sellers and the Seller Subsidiaries in connection with the Business.

(ii) The Leases are valid, binding and in full force and effect in all material respects, and the relevant Seller or Seller Subsidiary holds a valid and existing leasehold interest under each of the Leases for the term set forth in each such Lease. The Sellers have delivered to the Buyer true and correct copies of each of the Leases. The relevant Seller or Seller Subsidiary is not in material default under any of the Leases and, to the Knowledge of the Sellers, no other party to the Leases is in material breach or default under any of the Leases, and no event or omission has occurred or failed to occur which with notice or lapse of time would constitute a material breach or default, or permit termination or modification under any of the Leases.

(i) Legal Compliance.

(i) Each Seller and Seller Subsidiary has complied with all applicable Laws of federal, state, local, and foreign Governmental Entities, except for such noncompliance as would not, individually or in the aggregate, have a Material Adverse Effect. No action, suit, proceeding, hearing, investigation, complaint, demand, or notice has been filed or commenced against the Sellers or Seller Subsidiaries alleging any failure so to comply, which would, individually or in the aggregate, have a Material Adverse Effect and, to the Knowledge of the Sellers, none has been filed, commenced or threatened.

(ii) All Leased Real Property conforms to and complies with all covenants, conditions, restrictions, reservations, land use, zoning, health, fire, water and building codes and other similar Laws, and no such Laws prohibit, limit or condition the use or operation of the Leased Real Property as currently used and operated in each case, except for any non-conforming, non-compliance, prohibition, limitation or condition as would not individually or in the aggregate, have a Material Adverse Effect. To the Knowledge of the Sellers, there is no pending or threatened material change in the zoning classification of any premises where the Business is conducted. The relevant Seller or Seller Subsidiary has operated and maintained such premises in accordance with applicable Laws, except for any non-conformance or non-compliance that would not, individually or in the aggregate, have a Material Adverse Effect.

(j) Intellectual Property.

(i) Except as set forth in §3(j)(i) of the Disclosure Schedule, to the Knowledge of the Sellers, no Seller or Seller Subsidiary in the conduct of Business, has in any material respect infringed upon, misappropriated, or violated any Intellectual Property rights of third parties, and no Seller or Seller Subsidiary has received any written notice alleging any such infringement, misappropriation, or violation. Except as set forth in §3(j)(i) of the Disclosure Schedule, to the Knowledge of the Sellers, no third party has in any material respect infringed upon, misappropriated, or violated any Intellectual Property rights of the Sellers or the Seller Subsidiaries included in the Acquired Assets or the assets of any Seller Subsidiary. There have been no written infringement studies prepared in the last three (3) years, including written opinions of counsel, prepared by or on behalf of the Sellers in connection with the products of the Business other than those provided to the Buyer prior to the date hereof.

(ii) §3(j)(ii) of the Disclosure Schedule sets forth, as of the date hereof, for the Intellectual Property included in the Acquired Assets or the assets of any Seller Subsidiary used in the conduct of the Business and owned by each Seller and Seller Subsidiary, a complete and accurate list of all United States and foreign (a) patents and patent applications used or held for use by each Seller and Seller Subsidiary in connection with the Business, (b) trademark and service mark registrations, trademark and service mark applications and material unregistered trademarks and service marks used by each Seller and Seller Subsidiary in connection with the Business, (c) copyright registrations, copyright applications and material unregistered copyrights used by each Seller and Seller Subsidiary in connection with the Business, (d) each material license, agreement, or other permission by which each Seller or Seller Subsidiary has granted any rights to any third party with respect to any of its Intellectual Property used in connection with the Business, and (e) all material software (excluding commercially-available “off-the-shelf” software) used by each Seller or Seller Subsidiary in connection with the Business. With respect to each item of Intellectual Property set forth in §3(j)(ii) of the Disclosure Schedule, except as set forth therein:

(A) one or more of the Sellers or Seller Subsidiaries possesses all right, title, and interest in and to the item, free and clear of any Security Interest;

(B) no suit or action is pending or, to the Knowledge of the Sellers, is threatened which challenges the validity, enforceability, use, or ownership of the item;

(C) no Seller or Seller Subsidiary has, to the Knowledge of the Sellers, granted any rights to the item under any license, sublicense, agreement or permission; and

(D) to the Knowledge of the Sellers, no Seller or Seller Subsidiary has taken any actions, including a sale or offer for sale, the disclosure of which would be reasonably likely to lead to the invalidity of any of the patents included in the Acquired Assets or the assets of any Seller Subsidiary.

(iii) §3(j)(iii) of the Disclosure Schedule sets forth, as of the date hereof, each material item of third-party (which, for these purposes, shall mean any Person other than SDP and the Seller Subsidiaries) Intellectual Property that each Seller or Seller Subsidiary uses in connection with the Business, pursuant to a license, sublicense, agreement, or permission. With respect to each such item of third-party Intellectual Property set forth in §3(j)(iii) of the Disclosure Schedule, except as set forth therein:

(A) to the Knowledge of the Sellers, the license, sublicense, agreement, or permission covering the item is valid, binding and in full force and effect in all material respects;

(B) no Seller or Seller Subsidiary, and to the Knowledge of the Sellers, no other party to the license, sublicense, agreement, or permission is in material breach or default, and no event has occurred which with notice or lapse of time would constitute a material breach or default or permit termination, modification, or acceleration thereunder;

(C) no Seller or Seller Subsidiary has granted any sublicense or similar right with respect to the license, sublicense, agreement, or permission;

(D) assuming the receipt of the approvals or authorizations or making of the notices or filings set forth in §3(c) of the Disclosure Schedule, to the Knowledge of the Sellers, no facts or circumstances exist with respect to such license, sublicense, agreement or permission nor have the Sellers taken any action that would preclude, limit or impair the license, sublicense, agreement or permission from being legal, valid, binding, enforceable and in full force and effect following the consummation of the transactions contemplated hereby, subject to bankruptcy, insolvency, reorganization, moratorium and similar laws of general applicability relating to or affecting creditor's rights and to general equity principles;

(E) to the Knowledge of the Sellers, no suit or action is pending that challenges the validity or enforceability of the third-party Intellectual Property underlying the license, sublicense, agreement or permission and, to the Knowledge of the Sellers, there is no basis for any such claim; and

(F) none of the Sellers or the Seller Subsidiaries has obtained any rights in such third party Intellectual Property under any oral license, sublicense, agreement or permission.

(iv) After the Closing, no Seller or Affiliate of any Seller (other than the Seller Subsidiaries) will have any interest in the Intellectual Property included in the Acquired Assets or the assets of any Seller Subsidiaries except to the extent provided in §2(g) hereof.

(k) Tangible Assets. The buildings, machinery, equipment, and other tangible assets that the Sellers and Seller Subsidiaries own and lease and that are used in connection with the Business have been maintained in accordance with normal industry practice and are in workable condition and repair (subject to normal wear and tear).

(l) Contracts relating to the Business. §3(l) of the Disclosure Schedule lists the following contracts and other agreements relating to the Business to which a Seller or Seller Subsidiary is a party as of the date hereof:

(i) any agreement (or group of related agreements) for the lease of personal property to or from any Person providing for lease payments in excess of \$350,000 per annum;

- (ii) any agreement (or group of related agreements) for the purchase or sale of raw materials, commodities, supplies, products, or other personal property, or for the furnishing or receipt of services, the performance of which involves annual consideration in excess of \$1,500,000;
- (iii) any agreement concerning a partnership or joint venture or any agreement calling for material payments based on the revenues or profits of the Business;
- (iv) any written or oral agreement (or group of related agreements) under which the Sellers or Seller Subsidiaries have created, incurred, assumed, or guaranteed any indebtedness for borrowed money, or any capitalized lease obligation, in excess of \$100,000;
- (v) any material agreement concerning noncompetition;
- (vi) any collective bargaining agreement;
- (vii) any agreement for the employment of any individual providing annual compensation in excess of \$250,000 or providing material severance benefits to executives;
- (viii) any material contracts, agreements, licenses and other commitments and arrangements in effect with respect to the marketing, distribution, licensing, or promotion of the Inventory by any independent sales person, distributor, sublicensor or other remarketer or sales organization, in excess of \$2,500,000; and
- (ix) any other agreement the performance of which involves annual consideration in excess of \$1,500,000.

With respect to each Assumed Contract and each agreement, contract, instrument or other similar arrangement to which a Seller Subsidiary is a party: (A) the agreement is valid, binding, and in full force and effect in all material respects, except as such enforcement may be limited by applicable bankruptcy, insolvency, reorganization, moratorium or other laws of general application affecting enforcement of creditors' rights or by general principles of equity; (B) none of the Sellers or Seller Subsidiaries, nor to the Knowledge of the Sellers, any other party, is in material breach or default, and no event has occurred which with notice or lapse of time would constitute a material breach or default, or permit termination, modification, or acceleration, under the agreement; and (C) no Seller or Seller Subsidiary has, and to the Knowledge of the Sellers, no other party has, repudiated any material provision of the agreement. Each such agreement constitutes the entire agreement of the respective parties thereto relating to the subject matter thereof.

(m) Litigation. Except as set forth on §3(m) of the Disclosure Schedule, there is no action, suit, investigation or proceeding pending, or, to the Knowledge of the Sellers, threatened against or affecting, the Business, any Acquired Asset or the assets of any Seller Subsidiary before any Governmental Entity which would have a Material Adverse Effect or which in any manner challenges or seeks to prevent, enjoin, alter or materially delay the transactions contemplated hereby. Except as set forth on §3(m) of the Disclosure Schedule, none of the Business, the Acquired Assets or the assets of any Seller Subsidiary is subject to any material order, writ, judgment, award, injunction, or decree of any Governmental Entity.

(n) Labor Relations. Except as set forth on §3(n) of the Disclosure Schedule, no Seller or Seller Subsidiary is a party to or bound by any collective bargaining agreement or similar arrangement, nor has it experienced any strike or material grievance, material claim of unfair labor practices, or other collective bargaining or analogous dispute within the past three (3) years. Other than under or pursuant to any existing collective bargaining agreement or similar arrangement, to the Knowledge of the Sellers, there is no organizational effort presently being made or threatened by or on behalf of any labor union, work council or similar organization with respect to employees of the Business. There is no pending material claim or, to the Knowledge of the Sellers, threatened material claim, against the Sellers or the Seller Subsidiaries alleging the violation of any Laws relating to employment, equal employment opportunity, nondiscrimination, immigration, wages, hours, benefits, collective bargaining, the payment of social security and similar Taxes, occupational safety and health and plant closing. To the Knowledge of the Sellers, the Sellers have paid all amounts of compensation due to their employees and former employees and have properly withheld, reported, and paid all Taxes on the same.

(o) Employee Benefits.

(i) §3(o) of the Disclosure Schedule contains a list of each material “employee benefit plan” (as defined in §3(3) of ERISA) and each employment, bonus, deferred compensation, incentive compensation, stock purchase, stock option, stock appreciation right or other stock-based incentive, fringe benefit, severance, change-in-control, termination pay, welfare, hospitalization or other medical, disability, life or other insurance, supplemental unemployment benefits, profit-sharing, pension, or retirement plan, program, agreement or arrangement and each other material employee benefit plan, program, agreement or arrangement, sponsored, maintained or contributed to or required to be contributed to by each Seller or Seller Subsidiary, or by any trade or business, whether or not incorporated (an “ERISA Affiliate”), that together with each Seller or Seller Subsidiary, would be deemed a “single employer” within the meaning of Section 414(b), (c), (m) and (o) of the Code, for the benefit of any current or former employee or director of the Sellers or any Seller Subsidiary relating to the Business (each, an “Employee Benefit Plan”).

(ii) No Seller or Seller Subsidiary, nor any ERISA Affiliate, has ever sponsored or maintained or had any liability with respect to any pension plan subject to §412 of the Code, §302 of ERISA or Title IV of ERISA.

(iii) Each Employee Benefit Plan that is intended to qualify under §401(a) of the Code has received a favorable determination letter from the Internal Revenue Service, and, to the Knowledge of the Sellers, no event has occurred which would cause any such Employee Benefit Plan to cease being so qualified.

(iv) No Employee Benefit Plan is (A) a “multi-employer pension plan,” as such term is defined in §3(37) of ERISA, (B) a “multiple employer plan” (within the meaning of §3(40) of ERISA or §413(c) of the Code), (C) a “voluntary employees’ beneficiary association” (within the meaning of §501(c)(9) of the Code), or (D) a “multiple employer welfare arrangement” (within the meaning of §3(40)(A) of ERISA).

(v) Each Employee Benefit Plan has been operated and administered in all material respects in accordance with its terms and applicable Laws, including but not limited to ERISA and the Code.

(vi) Except as set forth in §3(o) of the Disclosure Schedule, the consummation of the transactions contemplated by this Agreement will not, either alone or in combination with any other event, (A) entitle any current or former employee, officer or director of the Sellers or the Seller Subsidiaries relating to the Business to any severance pay or any other similar material termination payment, or (B) accelerate the time of payment or vesting, or increase the amount of, or otherwise enhance, any material benefit due to any such employee, officer, or director.

(vii) With respect to the Employee Benefit Plans (other than the Assumed Plans or Employee Benefit Plans of any Seller Subsidiary), there is no material liability which the Buyer shall assume as part of the transactions contemplated by this Agreement or otherwise.

(viii) With respect to the Assumed Plans, there is no material liability which the Buyer shall assume as part of the transactions contemplated by this Agreement or otherwise, related to any employees or former employees who terminate service with the Sellers prior to the Closing Date.

(ix) There are no pending or, to the Knowledge of the Sellers, threatened or anticipated material claims by or on behalf of any Employee Benefit Plan, by any employee or beneficiary under any such Employee Benefit Plan or otherwise involving any such Employee Benefit Plan (other than routine claims for benefits).

(x) All group health plans of the Sellers, the Seller Subsidiaries and their respective ERISA Affiliates, comply and have complied in all material respects with the requirements of Part 6 of Title I of ERISA (COBRA). Except as set forth in §3(o) of the Disclosure Schedule, no employee or former employee (or beneficiary of either) of the Sellers or the Seller Subsidiaries is entitled to receive any benefits, including without limitation, death or medical benefits (whether or not insured) beyond retirement or other termination of employment other than as applicable law requires.

(p) Environmental, Health, and Safety Matters.

(i) Each Seller and Seller Subsidiary is in compliance in all material respects with all applicable Environmental, Health, and Safety Requirements, except for such non-compliance as would not, individually or in the aggregate, have a Material Adverse Effect.

(ii) Without limiting the generality of the foregoing, each Seller and Seller Subsidiary has obtained, and is in compliance in all material respects with, all material permits, licenses and other authorizations that are required pursuant to applicable Environmental, Health, and Safety Requirements for the occupation of its facilities and the operation of the Business as of the Closing Date, except for such failure to obtain or such non-compliance as would not, individually or in the aggregate, have a Material Adverse Effect; a list of all such material permits, licenses and other authorizations is set forth in §3(p)(ii) of the Disclosure Schedule.

(iii) No Seller or Seller Subsidiary has received any written notice of any actual or alleged material violation of Environmental, Health, and Safety Requirements, or any material liabilities or potential material liabilities (whether accrued, absolute, contingent, unliquidated or otherwise), including any material investigatory, remedial or corrective obligations, arising under Environmental, Health, and Safety Requirements.

(iv) Except as would not, individually or in the aggregate, have a Material Adverse Effect, no Seller or Seller Subsidiary has, on any real property owned or occupied by the Sellers or the Seller Subsidiaries, treated, stored, disposed of, arranged for or permitted the disposal of, transported, handled, or released any substance, including without limitation any hazardous substance, or owned or operated any asset relating to the Business in a manner that has given or would give rise to material liabilities, including liability for response costs, corrective action costs, personal injury, property damage, natural resources damages or attorney fees, pursuant to any Environmental, Health, and Safety Requirements.

(v) Notwithstanding any other provision of this Agreement, the Buyer acknowledges that the representations and warranties in this §3(p) are the exclusive representations and warranties of the Sellers relating to compliance with, or liabilities under, Environmental Health and Safety Requirements.

(q) Permits and Authorization. As of the Closing Date, each Seller and Seller Subsidiary will be in possession of all Governmental Authorizations required for the conduct by the Sellers and the Seller Subsidiaries of the Business, except for such licenses, permits or other authorizations the absence of which would not, individually or in the aggregate, have a Material Adverse Effect.

(r) Assets of the Business. The Acquired Assets together with the assets of the Seller Subsidiaries consist of substantially all of the assets, properties, rights and agreements used or held for use by the Sellers and the Seller Subsidiaries in connection with the conduct of the Business as conducted as of the date of this Agreement (other than the Excluded Assets). A substantial portion of Acquired Assets of SDP located in the United States are located in the State of Ohio.

(s) Undisclosed Liabilities. No Seller or Seller Subsidiary has a Liability of any nature that would be required to be reflected on a balance sheet prepared in accordance with GAAP (except for (i) liabilities set forth on the Most Recent Balance Sheet and (ii) liabilities of a similar nature or category reflected or reserved against on the Most Recent Balance Sheet which have arisen after the Most Recent Fiscal Quarter End in the Ordinary Course of Business), that would, individually or in the aggregate, have a Material Adverse Effect.

(t) Protection of Proprietary Information.

(i) Each Seller and Seller Subsidiary has taken commercially reasonable measures to protect the confidentiality of its trade secrets used in the Business. To the Knowledge of the Sellers, no trade secret of the Sellers or the Seller Subsidiaries used in the Business has been disclosed or authorized to be disclosed to any third party other than pursuant to a written non-disclosure agreement.

(ii) All personnel, including employees, agents, consultants and contractors, who have contributed to or participated in the conception, reduction to practice or development of the Sellers' and the Seller Subsidiaries' Intellectual Property used in the conduct of the Business on behalf of the Sellers or the Seller Subsidiaries either: (A) have been party to a "work-for-hire" arrangement or agreement with the Sellers or the Seller Subsidiaries that has accorded the Sellers or the Seller Subsidiaries exclusive ownership of, and all right, title and interest in and to, Intellectual Property thereby arising, (B) have executed appropriate instruments of assignment in favor of one or more of the Sellers or the Seller Subsidiaries as assignee that have conveyed to one or more of the Sellers or the Sellers Subsidiaries exclusive ownership of all right, title and interest in and to all Intellectual Property thereby arising, or (C) were employees of one or more of the Sellers or the Seller Subsidiaries such that by operation of law or otherwise one or more of the Sellers or the Seller Subsidiaries were accorded exclusive ownership of, and all right, title and interest in and to, all Intellectual Property arising thereby.

(u) Taxes.

(i) Except as set forth in §3(u) of the Disclosure Schedule, (A) each of the Sellers has filed on a timely basis all Non-Income Tax Returns required to be filed by it in respect of the Business; (B) all such Non-Income Tax Returns filed by it were correct and complete in all material respects; and (C) each of the Sellers has paid all material Non-Income Taxes due from it with respect to the Business for all periods, whether or not such Taxes were shown on such Non-Income Tax Returns.

(ii) Except as set forth in §3(u) of the Disclosure Schedule, none of the Sellers has: (A) extended the time for filing any Non-Income Tax Return, which Tax Return has not yet been filed, or (B) received in writing any notice in respect of the business of any proposed assessments of Non-Income Taxes in respect of the Business, or any proposed adjustments to any Non-Income Tax Return filed by it in respect of the Business.

(iii) Except as set forth in §3(u) of the Disclosure Schedule, to the Knowledge of the Sellers: (A) each of the Seller Subsidiaries has filed on a timely basis all Tax Returns required to be filed by it; (B) all such Tax Returns filed by it were correct and complete in all material respects; and (C) each of the Seller Subsidiaries has paid all Taxes due from it for all taxable periods ending on or prior to the Closing, whether or not such Taxes were shown on such Tax Returns.

(iv) Except as set forth in §3(u) of the Disclosure Schedule, none of the Seller Subsidiaries has: (A) extended the time for filing any Tax Return, which Tax Return has not yet been filed, or (B) received in writing any notice of any proposed assessments of Taxes against it or in respect of the Business, or any proposed adjustments to any Tax Return filed by it or in respect of the Business.

(v) §3(u) of the Disclosure Schedule identifies each jurisdiction within and outside of the United States in which the Business is conducted in which sales, use, excise, value added or intangible taxes have been paid on software, products or other Inventory sold or licensed by the Sellers and the Seller Subsidiaries in conjunction with the Business.

(v) Insurance. §3(v) of the Disclosure Schedule lists all material insurance policies covering the ownership and operations of the Business or the Acquired Assets. Such insurance provides coverage for such risks, and in such amounts, as are reasonable and customary for businesses and assets of the same nature and size as the Business and the Acquired Assets. All of such policies, or similar replacement policies, are in full force and effect with no material premium arrearages.

(w) Related-Party Transactions; Affiliates. Except as set forth on §§3(l), 3(o), or 3(w) of the Disclosure Schedule, neither the Sellers nor the Seller Subsidiaries are a party to any contract, agreement, license, lease or arrangement with, or any other commitment to, directly or indirectly: (i) any stockholder, director, officer or Affiliate of the Sellers or the Seller Subsidiaries (other than the other Sellers and the Seller Subsidiaries), or (ii) any Person in which any such stockholder, director or officer has a material equity or participating interest (other than the other Sellers and the Seller Subsidiaries).

(x) Warranties. No product or software of the Business sold by the Sellers or the Seller Subsidiaries is subject to any contractual guaranty, warranty or other indemnity beyond the applicable standard terms and conditions of sale or license or as provided under applicable Law, except for variations that would not have a material financial impact on the Business. The Sellers and Seller Subsidiaries have heretofore made available to Buyer copies of the standard terms and conditions of sale or license used by the Sellers and the Seller Subsidiaries relating to the Business, which contain the applicable or substantially similar guaranty, warranty and indemnity provisions.

(y) Product Liability. During the three (3) year period preceding the date of this Agreement, none of the Sellers or the Seller Subsidiaries has been a defendant in any action, suit, investigation or proceeding relating to a claim for physical damage caused to any Persons or properties as a result of the ownership or use of any product manufactured or sold by the Business and, to the Knowledge of the Sellers, no such claim was or has been threatened.

(z) DISCLAIMER OF WARRANTIES. EXCEPT AS EXPRESSLY SET FORTH IN THIS §3, THE SELLERS DO NOT MAKE AND HAVE NOT MADE ANY REPRESENTATIONS OR WARRANTIES WHATSOEVER, EXPRESS OR IMPLIED, RELATING TO THE ACQUIRED ASSETS, OR THE BUSINESS, INCLUDING ANY REPRESENTATIONS OR WARRANTIES AS TO THE FUTURE SALES OR PROFITABILITY OF THE BUSINESS OR AS TO THE MERCHANTABILITY OR FITNESS FOR A PARTICULAR PURPOSE OF ANY OF THE ACQUIRED ASSETS, OR REPRESENTATIONS OR WARRANTIES ARISING BY STATUTE OR OTHERWISE IN LAW, FROM A COURSE OF DEALING OR USAGE OF TRADE. ALL SUCH OTHER REPRESENTATIONS AND WARRANTIES ARE HEREBY EXPRESSLY DISCLAIMED BY THE SELLERS.

4. Representations and Warranties of the Buyer. The Buyer makes the representations and warranties set forth in this §4 to the Sellers as of the date of this Agreement and as of the Closing Date, which representations and warranties are qualified (subject to §9(m) (iii) below) as to any documents, materials or other matters disclosed on or referred to in the Buyer's disclosure schedule accompanying this Agreement (the "Buyer Disclosure Schedule"):

(a) Organization of the Buyer. The Buyer is a corporation duly organized, validly existing, and in good standing under the laws of the jurisdiction of its incorporation.

(b) Authorization, Execution and Delivery; Valid and Binding Agreement. The Buyer has corporate power and authority to execute and deliver this Agreement and to perform its obligations hereunder. The execution, delivery and performance of this Agreement by the Buyer and the consummation of the transactions contemplated hereby have been duly and validly authorized by all requisite corporate proceedings and performance of this Agreement. This Agreement has been duly executed and delivered by the Buyer and, assuming that this Agreement is the valid and binding agreement of the Sellers, constitutes the valid and binding obligation of the Buyer, enforceable in accordance with its terms, except as such enforcement may be limited by applicable bankruptcy, insolvency, reorganization, moratorium or other laws of general application affecting enforcement of creditors' rights or by general principles of equity.

(c) Noncontravention. Assuming the receipt of the consents, approvals or waivers set forth in §4(c) of the Buyer's Disclosure Schedule, and compliance with the applicable notice, filing and authorization requirements of the Hart-Scott-Rodino Act and other Antitrust Laws, neither the execution and the delivery of this Agreement, nor the consummation of the transactions contemplated hereby (including the assignments and assumptions referred to in §2 above), will (i) violate any Law of any Governmental Entity to which the Buyer is subject, (ii) violate any provision of its charter, bylaws or other similar governance documents of the Buyer, (iii) conflict with, result in a breach of, constitute a default under, result in the acceleration of, create in any party the right to accelerate, terminate, or cancel, or require any notice under any agreement, contract, lease, license, instrument, or other arrangement to which the Buyer is a party or by which it is bound or to which any of its assets is subject, or (iv) require the Buyer to give any notice to, make any filing with, or obtain any authorization, consent, or approval of any Governmental Entity in order for the Buyer to consummate the transactions contemplated by this Agreement, except, in the case of clauses, (i), (iii) and (iv), for any such violations, conflicts, breaches, defaults, rights of acceleration, terminations, or cancellations or requirements that would not, individually or in the aggregate, reasonably be expected to materially impact the ability of the Buyer to perform its obligations under, and to consummate the transactions contemplated by, this Agreement.

(d) Brokers' Fees. The Buyer has no liability or obligation to pay any fees or commissions to any broker, finder, or agent with respect to the transactions contemplated by this Agreement for which the Sellers are liable or obligated.

(e) Litigation. There are no actions, suits, investigations, or proceedings by or before any Governmental Entity pending, or, to the Knowledge of the Buyer, threatened against the Buyer which in any manner challenge the validity of this Agreement or any action taken by the Buyer pursuant to this Agreement or seeks to prevent, enjoin, alter or materially delay any transaction contemplated hereby.

(f) Financial Ability. The Buyer has the financial ability to consummate the transactions contemplated by this Agreement. After the consummation of the transactions contemplated by this Agreement, the Buyer will be able to satisfy all of the Assumed Liabilities as they mature.

5. Covenants of the Sellers and the Buyer.

(a) General.

(i) Each of the Parties will use its reasonable best efforts to take all actions and to do all things necessary, proper, or advisable in order to consummate and make effective the transactions contemplated by this Agreement (including satisfaction, but not waiver, of the closing conditions set forth in §6 below).

(ii) Following the Closing, the Sellers agree to remit to the Buyer any payments or refunds received by the Sellers to the extent representing Acquired Assets.

(iii) Following the Closing, the Sellers shall provide the Buyer with copies of (x) unaudited financial statements as of the Closing Date and (y) any audited financial statements of SDP, in each case, prepared by or on behalf of the Sellers.

(iv) Prior to Closing, at the Buyer's request, the Sellers and the Seller Subsidiaries shall close out or terminate any currency hedging agreements or other similar derivative contracts to the extent such agreements or contracts would represent Acquired Assets or assets of a Seller Subsidiary.

(b) Notices and Consents.

(i) The Sellers will give any notices to third parties, and will use their reasonable best efforts to seek any third party consents that are set forth in §3(c) of the Disclosure Schedule. Each of the Parties will, as promptly as practicable, give any notices to, make any filings with, and use its commercially reasonable best efforts to obtain any required authorizations, consents, clearances and approvals of Governmental Entities and will cooperate with the other Party in making any filings required to be made by any of them. Without limiting the generality of the foregoing, each of the Parties will promptly (but in any event on or before December 4, 2003) file any (x) Notification and Report Forms and related material that it may be required to file with the Federal Trade Commission and the Antitrust Division of the United States Department of Justice under the Hart-Scott-Rodino Act, including seeking early termination of the waiting period thereunder, and (y) forms, notices and applications with the German Federal Cartel Office, will use its commercially reasonable best efforts to cause the expiration or termination of the applicable waiting period or to obtain the necessary approvals, and will make any further filings pursuant thereto that may be necessary, proper, or advisable in connection therewith.

(ii) In furtherance and not in limitation of §5(b)(i), if any investigation, suit, action or proceeding is threatened or instituted challenging any of the transactions contemplated hereby as violative of any Antitrust Law, the Parties will cooperate with each other and oppose vigorously and use their commercially reasonable best efforts to prevent the entry in a proceeding or administrative action brought under any Antitrust Law by any Governmental Entity or any other Person of any permanent or preliminary injunction or other order, decree or ruling that would make consummation of the transaction in accordance with the terms of this Agreement unlawful, that would delay consummation of the transactions contemplated beyond May 31, 2004 or that would prevent or otherwise restrain, enjoin or prohibit such consummation, and to effect the dissolution of any such injunction or order, including through prosecution of appeals. The Parties will use their respective commercially reasonable best efforts to include the other Parties in all conversations, discussions, hearings or other meetings, whether in person or by telephone, that it or its representatives has with any Governmental Entity with respect to the transactions contemplated by this Agreement. The Sellers, on the one hand, and the Buyer, on the other hand, shall (x) promptly inform the other of any material communication from the Federal Trade Commission, the Department of Justice or any other Governmental Entity regarding any of the transactions contemplated hereby, and (y) subject to applicable Law, consult with the other with respect to such communication. If any Party or any Affiliate thereof receives a request for additional information or documentary material from any such Governmental Entity with respect to the transactions contemplated hereby, then such Party will endeavor in good faith to make, or cause to be made, as soon as possible, an appropriate response in compliance with such request. Notwithstanding this §5(b)(ii) or any other provision of this Agreement, the Buyer shall not be obligated to (and shall not be obligated to cause any of its Affiliates to) agree to divest, license, hold separate or otherwise restrict (1) the use or operation of any business or assets of the Buyer (or any of its Affiliates) or (2) the use or operation of the Business or any Acquired Assets, in each case, to the extent such divestiture, licensing, holding or restriction would have a material and adverse impact on (x) the Business or (y) the business of the Buyer and its Affiliates taken as a whole.

(c) Conduct of the Business. From the date hereof until the Closing Date, except as set forth on §5(c) of the Disclosure Schedule, as contemplated by this Agreement, or as required by applicable Law, the Sellers (in the case of SCL, with respect to the Business and the Acquired Assets) shall, and shall cause the Seller Subsidiaries to, conduct the Business in the Ordinary Course of Business, use commercially reasonable efforts, taking into account the transactions contemplated by this Agreement, to preserve intact the business organizations and relationships with third parties and keep available the services of the present employees of the Business. Without limiting the generality of the foregoing, between the date hereof and the Closing, except as set forth on §5(c) of the Disclosure Schedule, as contemplated by this Agreement, or as required by applicable Law, the Sellers will not, and shall cause the Seller Subsidiaries not to, without the prior written consent of the Buyer, which consent will not be unreasonably withheld or delayed (in the case of SCL, with respect to the Business and the Acquired Assets):

- (i) incur, create or assume any material Security Interest (other than a Permitted Security Interest) on any material Acquired Asset of a Seller or any material asset of any Seller Subsidiary, other than in the Ordinary Course of Business;
- (ii) acquire or dispose of any material assets, other than in the Ordinary Course of Business;
- (iii) fail to maintain their financial statements in accordance with GAAP consistently applied or make any material change of accounting or accounting practice, procedure or policy;
- (iv) enter into any agreement, contract, lease or license (or series of related agreements, contracts, leases, and licenses) material to the Business taken as a whole, other than in the Ordinary Course of Business;
- (v) accelerate in any material respect, terminate, modify in any material respect or cancel any agreement, contract, lease or license, other than in the Ordinary Course of Business;
- (vi) make any material capital investment in, any material loan to, or any material acquisition of the securities or assets of, any other Person, other than in the Ordinary Course of Business;
- (vii) incur, assume or guarantee any material indebtedness for borrowed money or material capitalized lease obligation, outside the Ordinary Course of Business;
- (viii) materially delay or postpone the payment of accounts payable or other Liabilities, or materially accelerate the payment of any accounts receivable, outside of Ordinary Course of Business;
- (ix) cancel, compromise, waive or release any material right or claim (or series of related rights and claims), outside the Ordinary Course of Business;
- (x) dispose of, license or permit to lapse any material rights in any material Intellectual Property, outside the Ordinary Course of Business;
- (xi) grant any material increase in the base compensation of any of their employees or make any other material change in benefit plans or employment terms for any of their employees, outside the Ordinary Course of Business;

(xii) enter into any material sales agreement, other than in the Ordinary Course of Business, or any material sales agreement containing material variations from the standard terms of the Business disclosed to the Buyer;

(xiii) fail to keep in full force and effect their current insurance policies or other comparable insurance affecting the Business or the Acquired Assets;

(xiv) pay any dividend or otherwise distribute any cash or cash equivalents, other than by SCL or to SDP or another Seller Subsidiary;

(xv) enter into any commitment to do any of the foregoing.

(d) Access. The Sellers will, and will cause each Seller Subsidiary to, permit representatives of the Buyer to have access at all reasonable times, upon prior notice to the Sellers, and in a manner so as not to interfere with the normal business operations of the Sellers and the Seller Subsidiaries, to all premises, properties, personnel, books, records (including tax records), contracts, and documents of or pertaining to the Business. The Buyer will treat and hold any such information and materials it receives from the Sellers and the Seller Subsidiaries in the course of the reviews contemplated by this §5(d) in accordance with the terms of the Confidentiality Agreement.

(e) Notice of Developments. Each Party will give reasonably prompt written notice to the other Party of any material adverse development causing a breach of any of its own representations and warranties in §3 and §4 above. No disclosure by any Party pursuant to this §5(e), however, shall be deemed to amend or supplement the Disclosure Schedule or the Buyer Disclosure Schedule, as applicable, or to prevent or cure any misrepresentation, breach of warranty, or breach of covenant.

(f) Employees.

(i) Prior to the Closing Date, the Buyer shall, or shall cause an Affiliate of the Buyer to, make an offer of employment to each Employee which offer shall provide for compensation (excluding equity or incentive compensation) and employee benefits that are substantially comparable in the aggregate to that applicable to each such Employee immediately prior to the Closing Date and which shall be subject to standard reasonable conditions of employment applicable to other employees of the Buyer. Effective as of the Closing Date and for a period of one (1) year thereafter, the Buyer shall cause each Employee who accepts and commences employment with the Buyer (the "Transferred Employees") to be provided with compensation (excluding equity or incentive compensation) and employee benefits that are substantially comparable in the aggregate to that provided to such Employee immediately prior to the Closing Date. Nothing contained herein shall be deemed to be a commitment to continued employment and all Employees who become Transferred Employees may be hired as "at-will" employees.

(ii) The Buyer shall cause Transferred Employees to be given full credit for all service recognized by the applicable Seller or Seller Subsidiary prior to the Closing Date for purposes of eligibility to participate in any employee benefit plans or arrangements of the Buyer or any Affiliate of the Buyer in which such Transferred Employees participate from and after the Closing Date, to the same extent such service was recognized by applicable Seller or any Seller Subsidiary immediately prior to the Closing Date. The Buyer shall, or shall cause an Affiliate of the Buyer to, (i) waive all limitations as to preexisting conditions, exclusions and waiting periods with respect to participation and coverage requirements applicable to Transferred Employees under any welfare plan in which such employees may be eligible to participate after the Closing Date, other than limitations or waiting periods that are already in effect with respect to such employees and that have not been satisfied as of the Closing Date under any welfare plan of the applicable Seller or Seller Subsidiary in which Transferred Employees participate immediately prior to the Closing Date, and (ii) to the extent that the applicable insurance carrier or third-party provider administering the relevant Seller's or Seller Subsidiary's welfare plan transitions necessary information to the insurance carrier or third-party provider administering the relevant welfare plan of the Buyer, provide each Transferred Employee with credit for any co-payments and deductibles paid prior to the Closing Date in satisfying any applicable deductible or out-of-pocket requirements under any welfare plans in which such employees are eligible to participate after the Closing Date, as if those deductibles or co-payments had been paid under the welfare plans in which such employees are eligible to participate after the Closing Date.

(iii) Without limiting the generality of §5(f)(i) above, the Buyer (or an Affiliate of the Buyer) shall assume the Assumed Plans listed in clause (i) through (iv) of the definition of "Assumed Plans" effective as of the Closing. The Buyer or an Affiliate of the Buyer shall continue to maintain such Assumed Plans for a period of two (2) years thereafter unless the Assumed Plan by its terms terminates earlier without any action by the Buyer or an Affiliate of the Buyer, as applicable. Notwithstanding the foregoing, the Buyer or its Affiliate shall not be required to make its Assumed Plans available to any employee of Buyer or its Affiliates other than a Transferred Employee. The Buyer and the Sellers shall take all such action as may be necessary or appropriate in order to establish the Buyer as a successor to the applicable Seller as to all rights, duties, liabilities and obligations under, or with respect to, each Assumed Plan, including, but not limited to, the applicable Seller's rights, duties, liabilities and obligations under any trust agreement that forms a part of the Assumed Plan, together with the assets relating thereto. The Buyer shall indemnify and hold harmless the applicable Seller from and against any and all liabilities arising out of or related to any Assumed Plan with respect to acts, omissions or events that occur on or following the Closing Date. The Buyer and the Sellers acknowledge that the consummation of the transactions contemplated by this Agreement shall constitute a "Change in Control" for purposes of each of the Assumed Plans and a "Company Cash Transaction" for purposes of the Company's 2001 Stock Option and Incentive Plan.

(iv) Effective as of the Closing Date, except as prohibited by applicable law, the Buyer or its Affiliates shall provide each Transferred Employee with the number of his or her unused vacation and sick days outstanding as of the Closing Date under the applicable vacation and sick day policy of the applicable Seller or Affiliate of such Seller.

(v) The Buyer shall have the right, in its sole discretion, to assume, in addition to the Employee Benefit Plans identified in (i) through (iv) of the definition of Assumed Plans) any other Employee Benefit Plan as of the Closing Date, provided, however, that the Buyer shall provide notice to the applicable Seller of its intentions to assume any such plan within a reasonable period prior to the Closing Date. In the event that the Buyer chooses to assume an Employee Benefit Plan in accordance with the preceding sentence, the costs, if any, associated with the transfer of such Plan to the Buyer shall be borne solely by the Buyer.

(vi) Prior to the Closing Date, the Sellers shall cause the administrator of the Deferred Compensation Plan to make a clarifying interpretation pursuant to Article 11 of the Deferred Compensation Plan that (A) the termination of any Transferred Employee's employment with the applicable Seller upon the closing of the transactions contemplated by this Agreement will not be a termination of employment for purposes of the Deferred Compensation Plan and (B) the Buyer shall have the right to amend the Deferred Compensation Plan following the Closing Date in accordance with the terms of the Deferred Compensation Plan as in effect immediately prior to the Closing Date.

(vii) To the extent that the Sellers owe any severance payments to any Employee who does not become a Transferred Employee, the Sellers shall be responsible for such obligation.

(g) WARN Act. The Parties hereby acknowledge and agree that this Agreement and the actions to be taken hereunder shall not constitute or result in a "plant closing" or "mass layoff" within the meaning of the Worker Adjustment and Retraining Notification Act, 29 U.S.C. § 2101, et seq. (the "WARN Act"), and that no notice thereunder will be issued by the Seller prior to the Closing Date. The Buyer acknowledges that it has not informed the Sellers of any planned or contemplated decisions or actions by the Buyer that would require the service of notice under the WARN Act or any applicable state law version thereof. The Buyer agrees that it shall not take any action which causes the notice provisions of the WARN Act or any applicable state Law version thereof to be applicable to the transactions contemplated by this Agreement, and shall be solely responsible (as between the Buyer and the Sellers) for any and all costs, expenses, fees and penalties, if any, that may arise thereunder. The Sellers will take no actions prior to the Closing that would constitute a "plant closing" or "mass lay-off" within the meaning of the WARN Act. At Closing, the Sellers shall provide the Buyer a listing of all Employee termination that occurred within ninety (90) days of the Closing, which list shall comprise §5(g) of the Disclosure Schedule.

(h) Tax Matters.

(i) The Buyer will prepare and file all Tax Returns ("Transfer Tax Returns") as may be required in connection with all excise, sales, use, value added, GST transfer, stamp, documentary, filing, recordation, registration or other similar Taxes, including all conveyance fees, recording charges and other fees and charges (including penalties and interest) incurred as a result of the sale and transfer of the Acquired Assets and the Assumed Liabilities hereunder (the "Transfer Taxes") in accordance with the form of the transaction or as may otherwise be required by a Governmental Entity. The cost of all such Transfer Taxes will be borne one-half by the Buyer and one-half by the Sellers. Each Party shall cooperate with the other Parties hereto to execute any Transfer Tax Returns which would require the signature of such Party.

(ii) The Buyer and the Sellers will provide each other with such assistance, cooperation and information (at the reasonable expense of the requesting party) as either of them reasonably may request of the other in connection with any accounting matters and the filing of any Tax Return, amended return or claim for refund, determining a Liability for, or a right to refund of, Taxes or preparation for litigation or investigation of claims with respect to Taxes or in connection with any audit with respect to Taxes, in each case relating to the Sellers, SDC, the Acquired Assets or Assumed Liabilities. Any information obtained under this §5(h) will be kept confidential as contemplated by §5(d) above, except as may be otherwise necessary in connection with the filing of any financial statements or Tax Returns or claims for refund or in conducting an audit or other proceeding related to the payment of Taxes.

(iii) If in order to prepare proper documents required to be filed with Governmental Entities or its financial statements, it is necessary that either the Buyer or the Sellers be furnished with additional information relating to the Acquired Assets or the Assumed Liabilities and such information is in the possession of the other party, such other party will furnish such information in a timely manner to the party reasonably requiring such information, at the cost and expense of the party requiring such information.

(iv) The Seller and the Buyer will file or provide to each other such Tax Returns, forms and other documents as may be required or necessary to minimize or obtain an exemption from any excise, sales, use, value added, transfer, stamp, documentary, filing, recordation or other similar Taxes that arise with respect to the Acquired Assets, or the Assumed Liabilities. Without limiting the generality of the foregoing, on or before the Closing Date, the Buyer will provide the Seller with any sales Tax exemption certificates of the Buyer required in connection with the transactions contemplated by this Agreement.

(v) Notwithstanding any other provision of this §5(h), no Party will have access to the other Party's Income Tax Returns or books and records relating thereto.

(vi) Notwithstanding anything herein to the contrary, except as required by applicable Law, neither the Buyer nor the Sellers shall apply for any receipt, tax certificate or other similar document or notification from any state or local governmental authority with respect to sales or use taxes that have arisen in connection with the Business or the transactions contemplated hereunder, including, but not limited to, a receipt for such taxes under Ohio Rev. Code Ann. §5739.14 (“Sale of entire business; successor liable for taxes and penalties due”) or any similar provision of state or local law. The Buyer shall not withhold any amount from the Purchase Price in respect of any Taxes.

(i) Trademarks; Tradenames.

(i) It is expressly agreed that Buyer is not acquiring any right, title or interest in or to, and except as expressly set forth in the other subsections of this §5(i), after the Closing, the Buyer and its Affiliates shall not use, any of the following trademarks, trade names, Internet domain names, and related symbols and logos: Scitex, the Scitex corporate symbol, or any other part of the trade dress of the Sellers’ or Seller Subsidiaries’ nameplates, packaging and promotional materials or Internet domain names that includes the Scitex name, or any part or variation of any of the foregoing or any confusingly similar trademarks, service marks or Internet domain names. Such names shall be referred to, collectively or individually as the context requires, as the “Seller Trademarks.”

(ii) Notwithstanding the foregoing, for a period of 90 days after the Closing, the Buyer may continue to use the Seller Trademarks on signage and invoices.

(iii) Until inventories of nameplates, labels, packaging, and promotional materials are exhausted, but ending no later than one (1) year from the Closing (the “Sell-Off Period”), the Buyer may continue to use the Seller Trademarks on nameplates, labels, packaging and promotional materials in existence as of the Closing Date and marked with Seller Trademarks. The Buyer may apply such labels, nameplates and packaging only to inventory of products that is in existence as of the Closing Date. The Buyer shall overstamp or sticker all materials comprising Acquired Assets on which Seller Trademarks appear so as to indicate the Buyer’s ownership of the Business and the separation of the Business from the Sellers; provided, however, that the Buyer may indicate on such packaging and labels that the products were manufactured by the applicable Seller or Seller Subsidiary. In addition, during the Sell-Off Period, the Buyer shall be permitted to use machine tools and other manufacturing equipment that cause the inclusion of the Seller Trademarks on products; provided, however, that the Buyer shall promptly obliterate the Seller Trademarks from such products.

(iv) The Buyer shall not be obligated to change the Seller Trademarks on goods in the hands of dealers, distributors and customers at the time of the expiration of the Sell-Off Period set forth in subsection (iii) above.

(v) The Buyer agrees that (i) immediately upon termination of the Sell-Off Period, the Buyer shall cease and desist from all further use of the Seller Trademarks and will adopt new trademarks that are not confusingly similar to the Seller Trademarks, and (ii) except as expressly set forth in this §5(i), neither the Buyer nor any of its Affiliates shall make any use of the Seller Trademarks. The obliteration of the Seller Trademarks shall be deemed compliance with the Buyer's covenants not to use the Seller Trademarks pursuant to this §5(i).

(vi) For six (6) months after the Closing Date, the Sellers will (A) maintain any Internet domain names that are used by the Sellers in connection with the Business immediately prior to the Closing and (B) provide links or redirections from such domain names to a Web site or sites designated by the Buyer, which links or redirections shall be reasonably acceptable to the Buyer; provided, however, that the Buyer acknowledges that the primary Web pages associated with such Internet domain names may display a statement notifying visitors that the Sellers and their Affiliates following the Closing are not affiliated with the Buyer or the Business.

(j) Confidentiality.

(i) The Sellers and the Buyer (each, as applicable, the "Receiving Party") hereby covenant and agree, each on behalf of itself and on behalf of its Affiliates, that from and after the Closing Date, the Receiving Party and its Affiliates will not (unless legally compelled to do so or as necessary in connection with any filing or disclosure obligations, including, without limitation, financial reporting, securities law disclosure, preparation of Tax Returns or in prosecuting or defending any action or proceeding, before any Governmental Entity) disclose, give, sell, use or otherwise divulge any Confidential Information (as defined below) of the other party (the "Disclosing Party") or permit their respective employees, officers, directors or advisors to do the same. If the Receiving Party or its Affiliates, or any of their respective employees, officers, directors or advisors, become legally compelled to disclose any Confidential Information, the Receiving Party shall provide the Disclosing Party with prompt written notice of such requirement so that the Disclosing Party may seek a protective order or other remedy or waive compliance with this §5(j). In the event that such protective order or other remedy is not obtained, or the Disclosing Party waives compliance with this §5(j), the Receiving Party or its Affiliates, as applicable, shall furnish only that portion of Confidential Information which is legally required to be provided and exercise its commercially reasonable efforts to obtain assurances that appropriate confidential treatment will be accorded Confidential Information. The confidentiality and restrictive use obligations under this §5 (j) shall not apply to information which is independently developed by the Receiving Party or its Affiliates without the use or benefit of any information that would otherwise be Confidential Information, or to any information that, at the time of disclosure, is or subsequently becomes available publicly; provided, however, that such information was not disclosed in breach of this Agreement by the Receiving Party, the Receiving Party's Affiliates or their respective employees, officers, directors or advisors.

(ii) The Receiving Party, on behalf of itself and on behalf of its Affiliates and their respective employees, officers, directors or advisors acknowledges that a breach of its obligations under this §5(j) may result in irreparable injury to the Disclosing Party. In the event of the breach by the Receiving Party or any of its Affiliates or their respective employees, officers, directors or advisors of any of the terms and conditions of this §5(j) to be performed, the Disclosing Party shall be entitled, if it so elects, to institute and prosecute proceedings in any court of competent jurisdiction, either at law or in equity, to obtain damages for any breach of this §5(j), or to enforce the specific performance thereof by such party or to enjoin such party from violating the provisions of this §5(j) by seeking a temporary restraining order or similar relief.

(iii) “Confidential Information” means all information of any kind concerning the Disclosing Party or any of its Affiliates obtained directly or indirectly from the Disclosing Party or any of its Affiliates, employees, representatives or agents in connection with the transactions contemplated by this Agreement, except information (a) ascertainable or obtained from public or published sources, (b) received from a third party who, to the Knowledge of the Receiving Party, is under no obligation to keep such information confidential, (c) which is or becomes known to the public (other than through a breach of this Agreement), (d) which was in the Receiving Party’s possession prior to disclosure thereof to the Receiving Party and which was not subject to any obligation to keep such information confidential; or (e) which is independently developed by the Receiving Party or its Affiliates without the use or benefit of any information that would otherwise be Confidential Information; provided, however, that with respect to any information included in the Acquired Assets or Assumed Liabilities or related to the Seller Subsidiaries that is or would be deemed the Sellers’ or Seller Subsidiaries’ “Confidential Information” prior to Closing under the foregoing definition, that such information shall be deemed the “Confidential Information” of the Buyer immediately upon Closing and the Seller shall be deemed the “Receiving Party” with respect thereto notwithstanding the above exceptions.

(iv) Notwithstanding anything herein to the contrary, each party (and its representatives, agents and employees) may consult any tax advisor regarding the tax treatment and tax structure of the transactions contemplated hereby and, from and after the date of execution of an agreement to enter into such transactions (or, if earlier, the date of public announcement of such an agreement, or public announcement of discussions between the parties relating to such transactions), may disclose to any Person, without limitation of any kind, the tax treatment and tax structure of such transactions and all materials (including opinions or other tax analyses) that are provided relating to such tax treatment and tax structure.

(v) The Buyer and SDP agree that, upon Closing, the Confidentiality Agreement will automatically terminate and be superseded, in its entirety, by the terms of this §5(j).

(k) Non-Competition.

(i) The Sellers agree that for a period of two (2) years following the Closing Date, none of the Sellers will engage in any way, whether as owner, principal, employee, consultant or in any other capacity, in any business competitive with the Business, anywhere in the world, except as a customer or authorized distributor of the Buyer or otherwise with the Buyer's consent (which may be withheld in the Buyer's sole discretion). Activities by non-wholly-owned Subsidiaries of the Sellers (other than such Subsidiaries that are wholly-owned as of the date of this Agreement) shall not constitute a violation of this §5(k)(i). The Sellers acknowledge and agree that the current market for the Business' products and services and the Business extends throughout the entire world and that it is therefore reasonable to prohibit them from competing with the Buyer in the Business anywhere in the world as provided in this §5(k).

(ii) SCL authorizes the Buyer, for a period of two (2) years after the Closing Date, to enforce at the Buyer's sole expense and on SCL's behalf any rights, to the extent that they exist, that SCL has or may have to restrict any Person (whether an Affiliate or not) from using the Seller Trademarks in any way in connection with any business competitive with the Business anywhere in the world. In the alternative, SCL shall enforce at the request of the Buyer and for a period of two (2) years after Closing, any rights that SCL has or may have to restrict any Person (whether an Affiliate or not) from using the Seller Trademarks in any way in connection with any business competitive with the Business anywhere in the world. The Buyer agrees to reimburse SCL for all costs and expenses incurred by SCL as a result of such enforcement.

(iii) For a period of two (2) years after the Closing, SCL shall not and shall cause each Affiliate of SCL to not grant or license (whether as a part of a new grant or license or by an amendment, modification, renewal or extension of any existing grant or license) any Person (whether an Affiliate or not) the right to use the Seller Trademarks in any way in connection with any business that is directly or indirectly competitive with the Business anywhere in the world, except to the extent and only to the extent such license is currently in effect or there is an existing commitment to enter into such a license.

(iv) For a period of two (2) years following the Closing, SCL shall endeavor to cause its non-wholly-owned Subsidiaries not to (x) engage directly or indirectly, in the manufacturing, distribution or marketing of products incorporating binary continuous inkjet technology or (y) hire or engage as an independent consultant Nachum Shamir, Yosef Zylberberg, Kazem Samanderi or Eliezer Lubitch to the extent the business of such non-wholly-owned Subsidiary engages in a business competitive with the Business.

(v) If any Governmental Entity of competent jurisdiction determines that the restrictive covenant contained in this §5(k), or any part thereof, is invalid or unenforceable for any reason, the remainder of the restrictive covenant will not thereby be affected and will be given full force and effect, without regard to the invalid portion or portions. If any such Governmental Entity determines that the restrictive covenant contained in this §5(k), or any part thereof, is unenforceable because of the duration or scope of such covenant, such Governmental Entity will have the power to reduce such duration or scope and, in its reduced form, such covenant will then be enforceable and will be given full force and effect. The Sellers, acknowledge and agree that the provisions of this §5(k), as such apply to them, are reasonable and supported by adequate consideration, that the Buyer would not have entered into this Agreement without having received the benefit of the provisions of this §5(k), and that any breach of the provisions of this §5(k) would result in substantial and irreparable harm to the Buyer and its Affiliates and, therefore, that the Buyer will be entitled to an injunction to prohibit any such breach or anticipated breach, without the necessity of posting a bond, cash or otherwise, in addition to all of its other legal and equitable remedies, including the remedies provided by this Agreement.

(l) Exclusivity. Subject to § 5(l)(iv), from the date of this Agreement until the Closing, or such earlier date as this Agreement is terminated under §7 hereof:

(i) The Buyer will have the exclusive right to negotiate with the Sellers with respect to a Purchase Transaction;

(ii) The Sellers will and will cause each Affiliate and representative of the Sellers to: (A) terminate all current discussions and negotiations regarding a Purchase Transaction with any party other than the Buyer or the Buyer's Affiliates; and (B) not seek or initiate proposals or offers from, enter into, continue or engage in discussions or negotiations with, or furnish information to any party other than the Buyer or the Buyer's Affiliates relating to a Purchase Transaction; provided, however, that the Board of Directors of each Seller shall be permitted to, to the extent applicable, make any disclosures that are required by applicable Law or which the Board of Directors of SCL or SDP, after consultation with outside counsel, determines in good faith is required in the exercise of its fiduciary duties under applicable Laws;

(iii) The Sellers will notify the Buyer of the existence of any new proposal or communication it receives from any Person concerning a Purchase Transaction; and

(iv) If a third party expresses an interest in a potential Purchase Transaction that was not solicited after the date hereof by the Sellers (or any of its Affiliates or representatives) and the Board of Directors of SCL or SDP determines in good faith, after consultation with independent outside counsel and its financial advisors, that the failure to engage in negotiations or discussions with respect to the same would reasonably be expected to constitute a breach of its fiduciary duties under applicable Laws, then any such discussion or negotiation shall not constitute a breach of this Agreement; provided, however, that the Sellers must provide the Buyer with the notices contemplated by §7(a)(v) and provided, further, that the Sellers shall be obligated to pay the Buyer the amount contemplated by §7(c) if required pursuant to such section.

(m) Insurance. The Sellers will use commercially reasonable efforts to have the Buyer named as an insured on the insurance policies listed on §3(w) of the Disclosure Schedule for the current year and for all years that such insurance has been or was in place as set forth on such schedule.

6. Conditions to Obligation to Close.

(a) Conditions to Obligation of the Buyer. The obligation of the Buyer to consummate the transactions to be performed by it in connection with the Closing is subject to satisfaction of the following conditions:

(i) the representations and warranties set forth in §3 above shall be true and correct at and as of the Closing Date (except that representations and warranties given as of a specific date need be true only as of such date), except where the failure to be so true and correct would not, individually or in the aggregate, have a Material Adverse Effect (except that the representation and warranty set forth in §3(e)(i) shall be the true and correct in all material respects);

(ii) the Sellers shall have performed and complied in all material respects with all of their respective covenants hereunder to be performed prior to the Closing;

(iii) there shall not be in effect any Law enjoining or prohibiting the consummation of the Closing and no Governmental Entity shall have issued any order, decree or ruling enjoining or prohibiting the consummation of the Closing;

(iv) all applicable waiting periods (and any extensions thereof) under the Hart-Scott-Rodino Act shall have expired or otherwise been terminated and the German Federal Cartel Office shall have approved the transaction contemplated by this Agreement under the German Act Against Restraints in Competition, as amended;

(v) the Sellers shall have delivered to the Buyer certificates of an authorized officer of each Seller to the effect that, to the Knowledge of the signatory, each of the conditions specified above in §§6(a)(i) and (ii) is satisfied;

(vi) Skadden, Arps, Slate, Meagher & Flom LLP, special U.S. transaction counsel to the Sellers, will have furnished to the Buyer its written opinion, dated the Closing Date, in form and substance substantially as set forth on Exhibit C;

(vii) Goldfarb, Levy, Eran & Co., special Israeli counsel to SCL, will have furnished to the Buyer its written opinion, dated the Closing Date, in form and substance substantially as set forth on Exhibit D;

(viii) between the date of this Agreement and the Closing Date there shall not have occurred and remain in effect a Material Adverse Effect; and

(ix) in addition to the documents contemplated by §2(f), the Sellers will have delivered to the Buyer the following:

(A) a good standing certificate from the Secretary of Commonwealth of the Commonwealth of Massachusetts attesting to the subsistence and good standing of SDP and SDC in such jurisdiction dated no more than 10 days prior to the Closing Date; and

(B) a certificate signed by duly authorized officers of each of the Sellers and dated the Closing Date certifying to the Buyer (1) as to the incumbency and genuineness of the signatures of each officer of the Sellers executing this Agreement and any related document on behalf of the Sellers, (2) the genuineness of the resolutions (attached thereto) of the Board of Directors of the Sellers authorizing the execution, delivery and performance of this Agreement and any related documents and the Sellers' consummation of the transaction contemplated hereby, and (3) the genuineness of the resolutions (attached thereto) of the stockholder of SDP authorizing the execution, delivery and performance of this Agreement and any related documents.

The Buyer may waive any condition specified in this §6(a) at or prior to the Closing.

(b) Conditions to Obligation of the Sellers. The obligation of the Sellers to consummate the transactions to be performed by them in connection with the Closing is subject to satisfaction of the following conditions:

(i) the representations and warranties set forth in §4 above shall be true and correct at and as of the Closing Date (except that representations and warranties given as of a specific date need be true only as of such date), except where the failure to be so true and correct would not, individually or in the aggregate, reasonably be expected to materially impact the ability of the Buyer to perform its obligations under, and to consummate the transactions contemplated by, this Agreement;

(ii) the Buyer shall have performed and complied in all material respects with all of its covenants hereunder prior to the Closing;

(iii) there shall not be in effect any Law enjoining or prohibiting the consummation of the Closing and no Governmental Entity shall have issued any order, decree or ruling enjoining or prohibiting the consummation of the Closing;

(iv) all applicable waiting periods (and any extensions thereof) under the Hart-Scott-Rodino Act shall have expired or otherwise been terminated and the German Federal Cartel Office shall have approved the transaction contemplated by this Agreement under the German Act Against Restraints in Competition, as amended;

(v) the Buyer shall have delivered to the Sellers a certificate of an authorized officer to the effect that, to the Knowledge of the signatory, each of the conditions specified above in §§6(b)(i) and (ii) is satisfied;

(vi) Harter, Secrest & Emery LLP, special U.S. counsel to the Buyer, will have furnished to the Seller its written opinion, dated the Closing Date, in form and substance as set forth on Exhibit E; and

(vii) in addition to the documents contemplated by §2(f), the Buyer will have delivered to the Sellers a certificate signed by duly authorized officers of the Buyer and dated the Closing Date certifying to the Sellers (1) as to the incumbency and genuineness of the signatures of each officer of the Buyer executing this Agreement and any related document on behalf of the Buyer and (2) the genuineness of the resolutions (attached thereto) of the Board of Directors of the Buyer authorizing the execution, delivery and performance of this Agreement and any related documents and the Buyer's consummation of the transaction contemplated hereby.

The Sellers may waive any condition specified in this §6(b) at or prior to the Closing.

7. Termination.

(a) Termination of Agreement. The Parties may terminate this Agreement as follows:

(i) the Buyer and the Sellers may terminate this Agreement by mutual written consent at any time prior to the Closing;

(ii) the Buyer may terminate this Agreement by giving written notice to the Sellers at any time prior to the Closing (A) in the event any Seller has breached any representation, warranty, or covenant contained in this Agreement which breaches would, individually or in the aggregate, have a Material Adverse Effect, the Buyer has notified the Sellers of the breach, and the breach has continued without cure for a period of 30 days after notice of such breach or (B) if the Closing shall not have occurred on or before May 31, 2004, by reason of the failure of any condition precedent under §6(a) hereof (unless the failure results primarily from the Buyer itself breaching any representation, warranty, or covenant contained in this Agreement);

(iii) the Sellers may terminate this Agreement by giving written notice to the Buyer at any time prior to the Closing (A) in the event the Buyer has breached any material representation, warranty, or covenant contained in this Agreement, which breaches would, individually or in the aggregate, reasonably be expected to materially impair the ability of the Buyer to perform its obligations under, or consummate the transactions contemplated by, this Agreement, the Sellers have notified the Buyer of the breach, and the breach has continued without cure for a period of 30 days after the notice of breach or (B) if the Closing shall not have occurred on or before May 31, 2004, by reason of the failure of any condition precedent under §6(b) hereof (unless the failure results primarily from the Sellers themselves breaching any representation, warranty, or covenant contained in this Agreement);

(iv) by either the Buyer or the Sellers if there is in effect any Law that permanently prohibits or prevents the Closing, or if any judgment, order or decree of a competent Governmental Entity enjoining the Closing shall have been entered and shall have become final and non-appealable; provided that the party seeking to terminate this Agreement pursuant to this §7(a) (iv) shall have used its reasonable best efforts to remove such judgment, order or decree; and

(v) by the Buyer or by the Sellers, upon notice to the other, if the Sellers enter into an agreement providing for, or authorize or consummate, a Superior Proposal, but only at a time that is after the third business day following the Buyer's receipt of written notice from the Sellers advising that the Board of Directors of SCL is prepared to accept a Superior Proposal, specifying the material terms and conditions of the Superior Proposal and identifying the Person making the Superior Proposal.

(b) Effect of Termination. If any Party terminates this Agreement pursuant to §7(a) above, all rights and obligations of the Parties hereunder shall terminate without any liability of any Party and its Affiliates (and their respective stockholders, officers, directors, employees, agents and representatives) to any other Party and its respective Affiliates (and their respective stockholders, officers, directors, employees, agents and representatives), except that §§5(j), 7(c), 9(a), 9(g), 9(h) and 9(k) and any related definitional provisions shall survive indefinitely, and except with respect to willful and material breaches of this Agreement prior to the time of such termination. If this Agreement is terminated prior to Closing, (i) each Party will redeliver all documents, work papers and other materials of the other Party relating to this Agreement or the transactions contemplated hereby, whether obtained before or after the execution of this Agreement, to the Party furnishing the same, (ii) each Party will destroy all documents, work papers and other materials developed by its accountants, representatives, agents and employees in connection with the transactions contemplated hereby which embody any proprietary information or trade secrets furnished by any Party hereto or deliver such documents, work papers and other materials to the Party furnishing such proprietary information or trade secrets or excise such proprietary information or trade secrets therefrom, and (iii) all information received by any Party hereto with respect to the business of the other Party (other than information which is a matter of public knowledge) shall not at any time be used for any personal advantage or disclosed by such Party to any third person to the detriment of the Party furnishing such information.

(c) Payment Upon Certain Termination. If this Agreement is terminated as provided by §7(a)(v), then the Sellers will pay to the Buyer, within 30 days of the termination date, as liquidated damages and not as a penalty, the amount of \$7,500,000. The Parties agree that the provisions of this §7(c) are reasonable in light of the costs and expenses borne and to be borne by the Buyer in furtherance of the negotiation and consummation of the transaction contemplated hereby and the losses and competitive disadvantage the Buyer would suffer as a result of devoting significant attention to consummation of the transaction contemplated hereby to the exclusion of pursuing other business opportunities.

8. Survival; Indemnification.

(a) Survival of Representations and Warranties and Covenants. (i) All of the representations and warranties of the Sellers and the Buyer contained in §3 and §4 above (other than those contained in §§3(e), 3(p), and 3(u)) shall survive the Closing hereunder and continue in full force and effect for a period of two (2) years thereafter (the “General Survival Period”) and (ii) the representations and warranties of the Sellers contained in §§3(e), 3(p), and 3(u) above, shall survive the Closing hereunder and continue in full force in effect until the expiration of the applicable statute of limitations (the “Special Survival Period”) and no Person may seek indemnification under this §8 with respect to a breach of a representation or warranty after the expiration of the General Survival Period or Special Survival Period, as applicable. In the event that an Indemnified Party provides written notice in accordance with §9(g) hereof to the Indemnifying Party with respect to a specific claim within the applicable survival period, and such claim has not been finally resolved before the expiration of the applicable survival period, any representation or warranty that is the basis for such claim (or, in the case of a class action or a series of related claims arising out of substantially the same facts and circumstances as such claim, all such related claims) shall continue to survive and shall remain a basis for indemnity only as to such specific claim (or, in the case of a class action or a series of related claims arising out of substantially the same facts and circumstances as such claim, all such related claims) until such claim is finally resolved. The Parties’ respective covenants and agreements to be performed at or after the Closing Date contained in this Agreement shall survive indefinitely unless otherwise set forth herein; provided, however, that any such survival shall not be deemed, directly or indirectly, to affect the General Survival Period or the Special Survival Period applicable to the representations and warranties.

(b) Indemnification by the Sellers.

(i) Subject to the limitations of §§8(e) and (f), the Sellers agree to indemnify the Buyer and its officers, directors, employees and stockholders (collectively, the “Buyer Indemnified Parties”) and hold them harmless against any Adverse Consequences, which any of the Buyer Indemnified Parties suffer, sustain or become subject to, as a result of (x) any breach of any of the representations and warranties of the Sellers contained in this Agreement, or (y) any breach of, or failure to perform, any agreement of the Sellers contained in this Agreement (collectively, “Buyer Losses”).

(ii) The Sellers agree to indemnify the Buyer Indemnified Parties from and against any Adverse Consequences, without regard to any survival period, that the Buyer Indemnified Parties suffer resulting from, or caused by the failure to satisfy, the Retained Liabilities.

(c) Indemnification by the Buyer.

(i) Subject to the limitations of §§8(e) and (f), the Buyer agrees to indemnify the Sellers, and their respective officers, directors, employees and stockholders (collectively, the “Seller Indemnified Parties”) and hold them harmless against any Adverse Consequences which any of the Seller Indemnified Parties suffer, sustain or become subject to as a result of (x) any breach of any of the representations and warranties of the Buyer contained in this Agreement and (y) any breach of, or failure to perform, any agreement of the Buyer contained in this Agreement (collectively, “Seller Losses”).

(ii) The Buyer agrees to indemnify the Seller Indemnified Parties from and against any Adverse Consequences, without regard to any survival period, that the Seller Indemnified Parties suffer resulting from, or caused by the failure to satisfy, the Assumed Liabilities.

(d) Method of Asserting Claims. As used herein, an “Indemnified Party” shall refer to a Buyer Indemnified Party or Seller Indemnified Party, as the case may be, and the “Indemnifying Party” shall refer to the party or parties hereto obligated to indemnify such Indemnified Party.

(i) In the event that any of the Indemnified Parties is made a defendant in or party to any action or proceeding, judicial or administrative, instituted by any third party the liability or the costs or expenses of which are Adverse Consequences (any such third party action or proceeding being referred to as a “Claim”), the Indemnified Party shall give the Indemnifying Party prompt notice thereof. The failure to give such notice shall not affect any Indemnified Party’s ability to seek reimbursement unless such failure has materially and adversely affected the Indemnifying Party’s ability to successfully defend a Claim. The Indemnifying Party shall be entitled to contest and assume the defense of such Claim and to be represented by attorneys of its own choosing, which attorneys are reasonably acceptable to the Indemnified Party. Notice of the intention so to contest and defend shall be given by the Indemnifying Party to the Indemnified Party within thirty (30) days after the Indemnified Party’s notice of such Claim. The Indemnified Party shall be entitled at any time, at its own cost and expense (which expense shall not constitute an Adverse Consequence), to participate in such contest and defense and to be represented by attorneys of its own choosing, which attorneys shall be reasonably acceptable to the Indemnifying Party; provided, however, that the reasonable costs and expenses of the Indemnified Party prior to the Indemnified Party electing to defend such claim will be an Adverse Consequence. If the Indemnified Party elects to participate in such defense, the Indemnified Party will cooperate with the Indemnifying Party in the conduct of such defense. If the Indemnifying Party elects not to defend a Claim, whether by not giving the Indemnified Party timely notice as provided by this §8(d)(i) or otherwise, then the Indemnified Party will have the sole power to direct and control such defense, with counsel of the Indemnified Party’s choosing. Neither the Indemnified Party nor the Indemnifying Party may concede, settle or compromise any Claim without the consent of the other party, which consent will not be unreasonably withheld; provided, however, that in the case of any Claim, if the Indemnifying Party requests the Indemnified Party to accept a proposed financial settlement to be paid by the Indemnified Party or compromise with respect to any Claim, and the Indemnified Party withholds its consent thereto, the obligation of the Indemnifying Party to such Indemnified Party under this §8 with respect to such Claim shall not thereafter exceed the aggregate amount that the Indemnifying Party would have paid hereunder in connection with such settlement or compromise (including reimbursable expenses to the date thereof); provided, further, however, and notwithstanding anything else to the contrary contained in this Agreement, the Indemnifying Party will not settle, compromise or offer to settle or compromise any Claim on a basis that would result in the imposition of a consent order, injunction or decree that would restrict the future activity or conduct of the Indemnified Party or any Affiliate thereof or concede the invalidity or unenforceability of, or grant a license to the use of or under, any Intellectual Property without the consent of the Indemnified Party, which consent may not be unreasonably withheld. If the liability of the Indemnifying Party with respect to a Claim is subject to the Basket Amount and the Basket Amount has not yet been fully satisfied, the Indemnified Party shall reimburse the Indemnifying Party, upon demand of the Indemnifying Party, for any amount actually incurred by the Indemnifying Party in defending such Claim up to the amount of the remaining Basket Amount.

(ii) In the event any Indemnified Party should have a claim against any Indemnifying Party that does not involve a Claim, the Indemnified Party shall deliver a notice of such claim to the Indemnifying Party, setting forth in reasonable detail the identity, nature and estimated amount of Adverse Consequences related to such claim or claims, with reasonable promptness and in any event prior to the expiration of the Indemnifying Party’s indemnification obligation hereunder. If the Indemnifying Party notifies the Indemnified Party that the Indemnifying Party disputes the claim described in such notice, the Indemnifying Party and the Indemnified Party will proceed in good faith to negotiate a resolution of such dispute for a period of at least thirty (30) days.

(e) Other Indemnification Provisions. Except for claims based on fraud and except for remedies otherwise expressly provided for in this Agreement, the foregoing indemnification provisions shall be the sole and exclusive remedies of each Party and their respective Affiliates and their respective officers, directors, employees, stockholders, agents and representatives for any breach of any representation, warranty, covenant or agreement by the other Party contained in this Agreement. Without limitation of the foregoing, the Buyer Indemnified Parties’ rights to indemnification set forth in this §8 for breach of representations and warranties set forth in §3(p) of this Agreement shall constitute the relevant Buyer Indemnified Party’s sole and exclusive remedy for any Liability or Adverse Consequence arising under an Environmental, Health and Safety Requirement, and the Buyer expressly waives and relinquishes, on behalf of itself and all Buyer Indemnified Parties, and their respective successors and any assigns, any and all other rights, claims or remedies such person has or may have against any Seller or its Affiliates under any Environmental, Health and Safety Requirement, as presently in force or hereafter enacted, promulgated or amended.

(f) Limitations on Indemnification.

(i) In addition to the other limitations contained in this Agreement, the Sellers' indemnification obligations under this §8 are subject to the following terms and conditions: (i) the Sellers shall be liable to the Buyer Indemnified Parties under §8(b)(i)(x) only if a Buyer Loss for which indemnification is claimed exceeds \$50,000 (the "Small Claim Amount"); (ii) the Sellers shall be liable to the Buyer Indemnified Parties under §8(b)(i)(x) only if the aggregate amount of all Buyer Losses under §8(b)(i)(x) exceeds \$3,000,000 (the "Basket Amount"), in which case the Sellers shall be obligated to indemnify the Buyer Indemnified Parties only for the excess of the aggregate amount of all such Buyer Losses under §8(b)(i)(x) over the Basket Amount; (iii) in no event shall the Sellers have any liability for indemnification under §8(b)(i)(x) in an aggregate amount in excess of the amount that is twenty percent (20%) of the Purchase Price (the "Cap Amount"); (iv) notwithstanding anything to the contrary in this Agreement, the Seller shall not be obligated to indemnify the Buyer Indemnified Parties for any matter set forth on §8(f) of the Disclosure Schedule); (v) the amount of any indemnification to be paid under this §8 shall be computed after giving effect to any tax benefits realized by the Buyer Indemnified Parties and any insurance proceeds with respect to the Buyer Loss received by the Buyer Indemnified Parties; and (vi) the Sellers shall have no liability for indemnification hereunder for any Buyer Loss arising from a change in any federal, foreign, state or local law or regulation after the Closing Date having a retroactive effect. Any indemnification to which the Buyer Indemnified Parties, but for §8(f)(i)(v) or §8(f)(i)(vi), otherwise would have become entitled hereunder, shall not be taken into account in calculating the Basket Amount.

(ii) In addition to the other limitations contained in this Agreement, the Buyer's indemnification obligations under this §8 are subject to the following terms and conditions: (i) the Buyer shall be liable to the Seller Indemnified Parties under §8(c)(i)(x) only if a Seller Loss for which indemnification is claimed exceeds the Small Claim Amount; (ii) the Buyer shall be liable to the Seller Indemnified Parties under §8(c)(i)(x) only if the aggregate amount of all Seller Losses under §8(c)(i)(x) exceeds the Basket Amount, in which case the Buyer shall be obligated to indemnify the Seller Indemnified Parties under §8(c)(i)(x) only for the excess of the aggregate amount of all such Seller Losses over the Basket Amount; (iii) in no event shall the Buyer have any liability for indemnification under §8(c)(i)(x) in an aggregate amount in excess of the Cap Amount; and (iv) the amount of any indemnification to be paid under this §8 shall be computed after giving effect to any tax benefits actually realized by the Seller Indemnified Parties and any insurance proceeds with respect to the Seller Loss actually received by the Seller Indemnified Parties.

(iii) Notwithstanding anything to the contrary in this Agreement, for purposes of determining the indemnification obligations set forth under §8(b) or §8(c), in determining if any Party has breached a representation or warranty contained in §3 or §4 hereof, each representation and warranty made by such Party in this Agreement shall be determined to have been made on the date hereof and at the Closing without any qualifications or limitations as to materiality (including, without limitation, any qualifications or limitations made by reference to a Material Adverse Effect), and the word “material,” the phrase “Material Adverse Effect,” and words of similar import shall be deemed deleted from any such representation or warranty.

(g) Mitigation. Notwithstanding anything contained herein to the contrary, each Party shall use, and shall cause its Affiliates and the Buyer Indemnified Parties or the Seller Indemnified Parties, as applicable, to use, reasonable best efforts to mitigate any and all losses in respect of which it may be entitled to indemnification hereunder; provided, that all reasonable costs and expenses of such mitigation shall be deemed to be an indemnifiable loss or Adverse Consequence of such Party.

(h) Subrogation. After any indemnification payment is made to any Indemnified Party pursuant to this §8, the Indemnifying Party shall, only to the extent of such payment, be subrogated to all rights (if any) of the Indemnified Party against any third party in connection with the Adverse Consequences to which such payment relates. Without limiting the generality of the preceding sentence, any Indemnified Party receiving an indemnification payment pursuant to the preceding sentence shall execute, upon the written request of the Indemnifying Party, any instrument reasonably necessary to evidence such subrogation rights.

9. Miscellaneous.

(a) Press Releases and Public Announcements. Notwithstanding anything herein to the contrary, from the date hereof until the date that is 60 days after the Closing Date, neither Party will issue or cause to be issued a press release or similar public announcement or communication, whether prior or subsequent to the Closing, concerning the transactions contemplated hereby or the execution, performance or terms of this Agreement, unless such press release, similar public announcement or communication is mutually agreed upon by the Parties or is consistent with a prior press release, similar public announcement or communication that was mutually agreed upon by the Parties; provided, however, that any Party may make any public disclosure it believes in good faith is required by applicable Law or any listing or trading agreement concerning its publicly-traded securities (in which case the disclosing Party will use its reasonable best efforts to advise the other Party prior to making the disclosure) and provided, further, however, that nothing in this Agreement shall restrict the Buyer from making product marketing announcements at any time after the Closing.

(b) No Third-Party Beneficiaries. This Agreement shall not confer any rights or remedies upon any Person other than the Parties and their respective successors and permitted assigns.

(c) Entire Agreement. This Agreement (including the documents entered into simultaneously herewith) constitutes the entire agreement between the Parties and supersedes any prior understandings, agreements, or representations by or between the Parties, written or oral, to the extent they related in any way to the subject matter hereof. Notwithstanding the foregoing, the confidentiality agreement between SDP and the Buyer, dated September 8, 2003, as amended (the “Confidentiality Agreement”), shall remain in full force and effect in accordance with its terms unless and until the Closing.

(d) Succession and Assignment. This Agreement shall be binding upon and inure to the benefit of the Parties named herein and their respective successors and permitted assigns. No Party may assign either this Agreement or any of its rights, interests, or obligations hereunder without the prior written approval of the other Party; provided, however, that the Sellers (if prior to the Closing, with the consent of the Buyer, not to be unreasonably withheld) and the Buyer may at any time, or from time to time, distribute or assign any or all of its rights, interests or obligations, including its rights under this Agreement, to any entity controlling, controlled by or under common control with the Sellers or the Buyer, as applicable, either directly or through one or more of their respective Subsidiaries or Affiliates. For purposes of this Section, “control” means the ability to make material managerial decisions in the Ordinary Course of Business on behalf of the entity. Upon any such assignment or transfer and an assumption of all liabilities and obligations of SDP or SDC hereunder by the transferee, SDP or SDC shall be released from any and all liabilities and obligations hereunder. Upon any such assignment or transfer by the Buyer, the Buyer agrees and acknowledges that it will not be released from any of its liabilities and obligations hereunder.

(e) Counterparts. This Agreement may be executed in one or more counterparts, each of which shall be deemed, an original but all of which together will constitute one and the same instrument.

(f) Headings. The section headings contained in this Agreement are inserted for convenience only and shall not affect in any way the meaning or interpretation of this Agreement.

(g) Notices. All notices, requests, demands, claims, and other communications hereunder will be in writing. Any notice, request, demand, claim, or other communication hereunder shall be deemed duly given if served by personal delivery upon the party for whom it is intended, if delivered by a nationally recognized, overnight courier service, or if sent by facsimile, provided that the facsimile is promptly confirmed by telephone confirmation thereof, and addressed to the intended recipient as set forth below:

If to the Seller:

Scitex Digital Printing, Inc.
3000 Research Boulevard
Dayton, Ohio 45420-4099
Attention: Yosef Zylberberg
Telephone: (937) 259-3000
Fax: (937) 259-3164

Scitex Corporation Ltd.
3 Azrielli Center
Triangular Tower
45 Floor
Tel Aviv, Israel 67023
Attention: Yahel Shachar
Telephone: 972-3-607-5744
Fax: 972-3-607-5756

Copy to:

David Fox, Esq.
Daniel E. Wolf, Esq.
Skadden, Arps, Slate, Meagher & Flom LLP
Four Times Square
New York, NY 10036
Telephone: (212) 735-3000
Fax: (212) 735-2000

If to the Buyer:

Eastman Kodak Company
343 State Street,
Rochester, New York
14650-0211
Attention: General Counsel
Telephone: (585) 724-4322
Fax: (585) 724-9448

Copy to:

Thomas Anderson, Esq.
Harter, Secrest & Emery LLP
1600 Bausch & Lomb Place
Rochester, New York 14604
Telephone: (585) 231-1106
Fax: (585) 232-2152

All such notices and other communications shall be deemed to have been given and received effective as of: (i) in the case of personal delivery, on the date of such delivery, (ii) in the case of a nationally recognized, overnight courier service, on the business day following dispatch; or (iii) in the case of a facsimile, provided that the facsimile is promptly confirmed by telephone confirmation thereof, on the date of such delivery. Any Party may change the address to which notices, requests, demands, claims, and other communications hereunder are to be delivered by giving the other Party notice in the manner herein set forth.

(h) Governing Law; Venue; Jurisdiction.

(i) This Agreement shall be governed by and construed in accordance with the domestic laws of the State of New York without giving effect to any choice or conflict of law provision or rule (whether of the State of New York or any other jurisdiction) that would cause the application of the laws of any jurisdiction other than the State of New York. Any proceeding seeking to enforce any provision of, or based on any right arising out of, this Agreement may only be brought against any of the Parties in the courts of the State of New York, County of New York, or, if it has or can acquire jurisdiction, in the United States District Court for the Southern District of New York, and each of the Parties consents to the jurisdiction of such courts (and of the appropriate appellate courts) in any such action or proceeding and waives any objection to venue laid therein.

(ii) SCL hereby irrevocably designates, appoints and empowers Skadden, Arps, Slate, Meagher & Flom LLP as its designee, appointee and agent to receive for and on its behalf, service of any and all legal process, service of any and all legal process, summons, notices and documents which may be served in any action or proceeding. If for any reason such designee, appointee and agent shall cease to be available to act as such, SCL agrees to designate a new designee, appointee and agent on the terms and for the purposes of this provision reasonably satisfactory to the Buyer.

(i) Amendments and Waivers. No amendment of any provision of this Agreement shall be valid unless the same shall be in writing and signed by the Buyer and each Seller. No waiver by any Party of any default, misrepresentation, or breach of warranty or covenant hereunder, whether intentional or not, shall be deemed to extend to any prior or subsequent default, misrepresentation, or breach of warranty or covenant hereunder or affect in any way any rights arising by virtue of any prior or subsequent such occurrence.

(j) Severability. Any term or provision of this Agreement that is invalid or unenforceable in any situation in any jurisdiction shall not affect the validity or enforceability of the remaining terms and provisions hereof or the validity or enforceability of the offending term or provision in any other situation or in any other jurisdiction.

(k) Expenses. Except as otherwise provided herein, each of the Buyer and the Sellers will bear its own costs and expenses (including legal fees and expenses) incurred in connection with this Agreement and the transactions contemplated hereby (whether consummated or not).

(l) Construction. The Parties have participated jointly in the negotiation and drafting of this Agreement. In the event any ambiguity or question of intent or interpretation arises, this Agreement shall be construed as if drafted jointly by the Parties and no presumption or burden of proof shall arise favoring or disfavoring any Party by virtue of the authorship of any of the provisions of this Agreement. Any reference to any federal, state, local, or foreign statute or law shall be deemed also to refer to all rules and regulations promulgated thereunder, unless the context requires otherwise. The word "including" shall mean "including without limitation."

(m) Incorporation of Exhibits and Schedules.

(i) The Exhibits and Schedules identified in this Agreement are incorporated herein by reference and made a part hereof.

(ii) It is understood and agreed that the specification of any dollar amount in the representations and warranties contained in this Agreement or the inclusion of any specific item in the Disclosure Schedule is not intended to imply that such amounts or higher or lower amounts, or the items so included or other items, are or are not material, and neither Party shall use the fact of the setting of such amounts or the fact of the inclusion of any such item in the Disclosure Schedule in any dispute or controversy between the Parties as to whether any obligation, item or matter not described herein or included in the Disclosure Schedule is or is not material for purposes of this Agreement.

(iii) Any matter disclosed on any one Disclosure Schedule pursuant to a provision, sub-provision, section or subsection of this Agreement shall be deemed to be disclosed for all other purposes of this Agreement and the other sections of the Disclosure Schedule to the extent the applicability of such matters is apparent to such other section of the Disclosure Schedule.

(n) Bulk Transfer Laws. The Buyer acknowledges that the Sellers will not comply with the provisions of Article 6 of the Uniform Commercial Code or of any similar bulk transfer laws of any jurisdiction in connection with the transactions contemplated by this Agreement.

(o) Reliance. The Buyer acknowledges that it is a sophisticated investor and has such knowledge and experience in financial and business matters as to be capable of evaluating independently the merits, risks and suitability of entering into this Agreement and the transactions contemplated hereby. The Buyer is dealing with the Sellers on a professional arm's-length basis and has expertise in assessing tax, legal, jurisdictional, regulatory and other risks associated with entering into this Agreement and the transactions contemplated hereby. The Buyer further acknowledges that it itself has been, and will continue to be, solely responsible for making its own independent appraisal of and investigations into, and in connection with this Agreement and the transactions contemplated hereby it has made such an independent appraisal and assessment of, the financial condition, creditworthiness, affairs, status and nature of the Acquired Assets and the Business and it is not relying, and will not hereafter rely, on the Sellers, any affiliate or representative of the Sellers or any other third party with respect to such appraisal or assessment or to update it with respect to such matters or to keep such matters under review on its behalf. The Buyer agrees that it will waive any claim, action or proceeding of any kind whatsoever alleging, and it hereby agrees that it will not assert in any claim, action or proceeding, that it relied on any financial data, statements, claims, projections, forecasts or other information in entering into this Agreement or consummating the transactions contemplated hereby, except for any claim, action or proceeding based on the representations and warranties set forth in §3 of this Agreement or any breach of a covenant set forth in this Agreement.

(p) Facsimiles. The Parties agree that facsimile copies of signatures shall be deemed originals for all purposes hereof and that a Party may produce such copies, without the need to produce original signatures, to prove the existence of this Agreement in any proceeding brought hereunder.

(q) Guaranty. SCL hereby guarantees the full and prompt performance of SDP's obligations under this Agreement and the obligations of any party to whom obligations of SDP or SCL hereunder are assigned pursuant to §9(d) (in which case, if reasonably requested, SCL will deliver a customary stand-alone instrument of guarantee).

(r) Subsequent Closing. If all of the conditions to the obligations of the Parties to close set forth in §6 have been fulfilled or waived at a time when the transactions contemplated hereby with respect to one or more Seller Subsidiaries or their respective Businesses (the "Excluded Business") have not been approved or cleared by the Governmental Entities administering Antitrust Laws in the relevant jurisdiction, the Buyer may exclude the Excluded Business from the Closing. Such Excluded Business shall be treated as provided in §2(g) above and shall be subject to a separate closing once the necessary approvals or clearances have been obtained to the reasonable satisfaction of the Buyer and the Sellers.

IN WITNESS WHEREOF, the Parties hereto have executed this Agreement as of the date first above written.

EASTMAN KODAK COMPANY

By: _____

Name: Antonio Perez
Title: President and Chief Operating Officer

SCITEX DIGITAL PRINTING, INC.

By: _____

Name: Nachum Shamir
Title: President and Chief Operating Officer

SCITEX CORPORATION, LTD.

By: _____

Name: Nachum Shamir
Title: President and Chief Operating Officer

SCITEX DEVELOPMENT CORP.

By: _____

Name: Nachum Shamir
Title: President and Chief Operating Officer

Filename: exhibit_4a3.htm
Type: EX-99
Comment/Description:
(this header is not part of the document)

Exhibit 4(a)(3)

RAYMOND JAMES LTD.

Suite 5300 Scotia Plaza
40 King Street West
Toronto, Ontario
M5H 3Y2
Attn: John Cushman

DUNDEE SECURITIES CORPORATION

Suite 3424, Four Bentall Centre
1055 Dunsmuir Street
Vancouver, British Columbia
V7X 1K8
Attention: Paul Hughes

June 5, 2003

Scitex Corporation Ltd.
3 Azrieli Center, Triangle Building
Tel Aviv
67023, Israel

Attention: Mr. Yeoshua Agassi

Dear Sirs:

Raymond James Ltd. and Dundee Securities Corporation (the "Agents") understand that Scitex Corporation Ltd. ("Scitex" or the "Company") proposes to sell (the "Offering") 3,000,000 common shares of Creo Inc. ("Creo") held by Scitex (the "Shares") at a price of \$8.00 per share.

Subject to the terms and conditions set forth below, the Company appoints the Agents to act as the Company's sole and exclusive agents to solicit offers to purchase the Shares.

All references to dollars or \$ herein are to lawful currency of the United States of America, unless otherwise indicated.

In this agreement "business day" means any day except Saturday, Sunday or a statutory holiday in Vancouver, British Columbia.

1. Offering

1.1 The Agents will act as agents of the Company and use their commercially reasonable efforts to arrange for purchasers ("Purchasers") for the Shares in the jurisdictions as may be agreed upon by the Agents and the Company.

1.2 The sale of the Shares to Purchasers will be effected in a manner so as to be exempt from the prospectus requirements of applicable Canadian securities laws and the registration requirements of applicable United States securities laws.

1.3 In consideration of the services performed by the Agents under this Agreement, which services shall include:

- (a) acting as the Company's agents to solicit offers to purchase the Shares; and
- (b) advising the Company with respect to the sale of the Shares,

the Company agrees to pay to the Agents at the time of settlement of any trades of the Shares a fee equal to 1.75% of the gross proceeds therefrom, which the Agents will divide equally between them, as determined by the agreement among the parties hereto dated May 27, 2003 (the "Engagement Agreement").

1.4 The Company agrees that the Agents will be permitted to appoint other registered dealers (or other dealers duly qualified in their respective jurisdictions) as its agents to assist in the Offering and that the Agents may determine the remuneration payable by the Agents to such other dealers appointed by it.

2. Representations and Warranties of the Company

2.1 The Company represents and warrants to the Agents and acknowledges that the Agents are relying upon such representations and warranties, as follows:

- (a) the Company has been duly incorporated, amalgamated or continued and organized and is validly existing under the laws of the jurisdiction of its incorporation, amalgamation or continuance and is duly qualified to carry on its business and has filed all annual reports required under the laws of the jurisdiction of its incorporation, amalgamation or continuance;
- (b) the Company has full corporate power and authority to undertake the Offering and enter into this Agreement and to perform its obligations set out herein and this Agreement has been, duly authorized, executed and delivered by the Company and constitutes a legal, valid and binding obligation of the Company enforceable in accordance with its terms;
- (c) the Company is not in default or breach of, and assuming the Company receives the consent of Creo to the Offering under the provisions of Section 3.2 of the Standstill Agreement dated April 4, 2000 between Scitex Corporation Ltd. and Creo (the "Standstill Agreement"), the execution and delivery of this Agreement and the performance of the transactions contemplated hereby will not result in a breach of, and do not create a state of facts which, after notice or lapse of time or both, will result in a breach of, and do not and will not conflict with, any of the terms, conditions or provisions of the constating documents, resolutions or by-laws of the Company or any indenture, contract, agreement (written or oral), instrument, lease or other document to which the Company is a party or by which the Company is contractually bound or any laws, orders or regulations applicable to the Company;
- (d) the Company is the sole legal and beneficial owner of the Shares, all of which are validly issued as fully paid and non-assessable shares in the capital of Creo and are owned by the Company free and clear of all mortgages, liens, charges, pledges, security interests, encumbrances, adverse claims or demands whatsoever other than those contained in the Standstill Agreement;

- (e) no person, firm or corporation has any agreement or option, right or privilege (whether pre-emptive, contractual or otherwise) capable of becoming an agreement for the purchase or acquisition of any right or interest in any of the Shares;
- (a) no authorization, approval or consent of any court, governmental authority, agency or other party in any jurisdiction is required to be obtained by the Company in connection with the sale and delivery of the Shares hereunder (other than the consent of Creo);
- (f) other than the Agents and their agents, there is no person, firm or corporation acting or purporting to act at the request of the Company, who is entitled to any brokerage or finder's fee in connection with the transactions contemplated herein and in the event that any person, firm or corporation acting or purporting to act for the Company establishes a claim for any fee from the Agents, the Company covenants to indemnify and hold harmless the Agents with respect thereto and with respect to all costs reasonably incurred in defense thereof; and
- (g) the Company has taken or will take all steps as may be necessary to comply with the requirements of the applicable securities laws in connection with the sale of the Shares and the Company is entitled to avail itself of the applicable prospectus and registration exemptions available under the applicable securities laws in respect of the trades in the Shares to Purchasers resident in those jurisdictions.

2.2 The representations and warranties of the Company contained in this Agreement shall be true at the time of sale of any of the Shares as though they were made at the time of sale of any of the Shares.

3. Representations and Warranties of the Agents

3.1 Each of the Agents represents and warrants to the Company and acknowledges that the Company will be relying upon such representations and warranties in entering into this Agreement, that:

- (a) it holds all licenses and permits that are required for carrying on its business in the manner in which such business has been carried on;
- (b) it has good and sufficient right and authority to enter into this Agreement and complete its transactions contemplated under this Agreement on the terms and conditions set forth herein; and
- (c) it is appropriately registered under the applicable securities laws of Provinces of Canada so as to permit it to lawfully fulfil its obligations hereunder.

3.2 The representations and warranties of the Agents contained in this Agreement shall be true at the time of sale of any of the Shares as though they were made at the time of sale of any of the Shares.

4. Covenants of the Company

4.1 The Company hereby covenants to and with the Agents that it will:

- (a) allow each of the Agents and its counsel to conduct all due diligence in connection with the Offering which the Agents may reasonably require;
- (b) use its commercially reasonable efforts to obtain any necessary regulatory consents to the Offering on such terms as are mutually acceptable to the Agents and the Company, acting reasonably;
- (c) duly, punctually and faithfully fulfil all legal requirements to permit the Offering, including, without limitation, compliance with all applicable securities legislation to enable the Shares to be sold in accordance with this Agreement;
- (d) ensure that the offer, sale and distribution of the Shares will fully comply with the requirements of applicable securities legislation;
- (e) duly and punctually perform all the obligations to be performed by it under this Agreement; and
- (f) not, and it will ensure that none of its associates or affiliates will, after the date hereof until the expiration of the period of 90 days following the sale of any of the Shares, offer, contract to sell, sell or otherwise dispose of any common shares of Creo or any security convertible into, exercisable into or exchangeable for, common shares of Creo, without the prior written consent of the Agents, unless, such sales are done at an average price per share that is at least \$9.25.

5. Covenants of the Agents

5.1 Each of the Agents covenants with the Company that:

- (a) it will comply with all applicable securities laws in connection with the Offering; and
- (b) it has not and will not conduct any general solicitation or general advertising in connection with the offer and sale of the Shares, including advertisements, articles, notices or other communications published in any newspaper, magazine or similar media or broadcast over radio or television other than a tombstone advertisement announcing the completion of the Offering.

6. Conditions of Closing

6.1 The purchase and sale of the Shares and the closing hereunder shall occur on June 12, 2003 subject to the fulfillment of the following conditions:

- (a) the Company having obtained all requisite regulatory approvals required to be obtained by the Company in respect of the Offering on terms mutually acceptable to the Company and the Agents;
- (b) the subsequent resale of the Shares by the Purchasers outside of the United States being free from resale restrictions;
- (c) the certificates representing the Shares to be delivered to the Purchasers being unlegended;
- (d) the Company having complied fully with all relevant statutory and regulatory requirements required to be complied with prior to the time of sale of the Shares in connection with the Offering;
- (e) the Company having taken all necessary corporate action to authorize and approve this Agreement and all other matters relating thereto;
- (f) the Agents having received prior to the sale of the Shares a favourable legal opinion of the Corporate Secretary, addressed to the Agents, and acceptable in all reasonable respects to counsel to the Agents to the following effect:
 - (i) the Company has all requisite corporate capacity, power and authority to execute and deliver this Agreement and perform all transactions contemplated hereby and thereby;
- (g) the Agents having received prior to the sale of the Shares a favourable legal opinion of Blake, Cassels & Graydon LLP, addressed to the Agents, and acceptable in all reasonable respects to counsel to the Agents to the following effect:
 - (i) the offer and sale of the Shares has been effected in such a manner as to be exempt, either by statute or regulation or order, from the prospectus requirements of the applicable securities legislation, including the laws applicable in Canada, and the Company has taken all steps necessary under applicable Canadian securities legislation to permit the offer and sale of the Shares; and
 - (ii) there are no resale restrictions applicable to the Purchasers in respect of any subsequent resales of the Shares in Canada; and
 - (iii) this Agreement has been duly authorized, executed and delivered by the Company and constitutes a legal, valid and binding obligation of the Company enforceable in accordance with its terms;
- (h) the Agents having received prior to the sale of the Shares a favourable legal opinion of Proskauer Rose LLP, addressed to the Agents, and acceptable in all reasonable respects to counsel to the Agents to the following effect:
 - (i) the Shares are eligible for Category 1 of Rule 903(b)(1) of the Securities Act of 1933; and

- (ii). the sale of the Shares will be exempt from registration under the United States Securities Act of 1933, as amended;
- (i) any additional matters requested by counsel to the Agents, acting reasonably.

7. Expenses

7.1 Upon the closing of the transactions contemplated hereby, all reasonable costs and expenses (including legal, travel and out-of-pocket expenses) incurred by the Agents in connection with carrying out the terms of its engagement shall be borne by the Company; provided, however, that in no event shall the Company be required to pay more than US\$15,000.00 with respect to such costs and expenses.

7.2 The Agents may, from time to time, render accounts to the Company for its expenses for payment on or before the dates set out in the accounts.

7.3 The Company authorizes the Agents to deduct its expenses incurred in connection with this Agreement, as prescribed in Section 7.1 above, from the proceeds of the Offering, including expenses for which an account has not yet been rendered to the Company.

8. Indemnities

8.1 The Company hereby covenants and agrees to protect, indemnify and hold harmless the Agents and its directors, officers, employees, solicitors and agents (the Agents and its directors, officers, employees, solicitors and agents being individually, an "Indemnified Party" and, collectively, the "Indemnified Parties") from and against all losses, claims, costs, damages or liabilities which they may suffer or incur caused by or arising directly or indirectly by reason of:

- (a) the Company not complying with any requirement of any securities legislation or regulatory requirements in connection with the Offering;
- (b) the Company's failure to comply with any of its obligations hereunder including any breach of or default under any representation, warranty, condition, covenant or agreement of the Company in this Agreement or any other document to be delivered pursuant thereto; or
- (c) any untrue statements in or omissions from any public disclosure documentation supplied by the Company and relied upon by the Agents in the performance of its duties.

8.2 If any action or claim shall be asserted against an Indemnified Party in respect of which indemnity may be sought from the Company pursuant to the provisions hereof, or if any potential claim contemplated by this section shall come to the knowledge of an Indemnified Party, the Indemnified Party shall promptly notify the Company in writing of the nature of such action or claim (provided that any failure to so notify shall not affect the Company's liability under this paragraph unless such delay has prejudiced the defense to such claim). The Company shall assume the defense thereof at its expense, provided, however that the defense shall be through legal counsel acceptable to the Indemnified Party, acting reasonably. In addition, the Indemnified Party shall also have the right to employ separate counsel in any such action and participate in the defense thereof, and the fees and expense of such counsel shall be borne by the Company if:

- (a) the Indemnified Party has been advised by counsel, acting reasonably, that representation of the Company and the Indemnified Party by the same counsel would be inappropriate due to actual or potential differing interests between them; or
- (b) the Company has failed within a reasonable time after receipt of such written notice to assume the defense of such action or claim.

8.3 It is understood and agreed that neither party shall effect any settlement of any such action or claim or make any admission of liability without the written consent of the other party, such consent not to be unreasonably withheld or delayed. The indemnity hereby provided for shall remain in full force and effect and shall not be limited to or affected by any other indemnity in respect of any matters specified in this section obtained by the Indemnified Party from any other person.

8.4 To the extent that any Indemnified Party is not a party to this Agreement, the Agents shall obtain and hold the right and benefit of this section in trust for and on behalf of such Indemnified Party.

The Company hereby consents to personal jurisdiction and service and venue in any court in which any claim which is subject to indemnification hereunder is brought against the Agents or any Indemnified Party and to the assignment of the benefit of this section to any Indemnified Party for the purpose of enforcement.

9. Contribution

9.1 In the event that, for any reason, the indemnity provided for in section 8 hereof is illegal or unenforceable, the Agents and the Company shall contribute to the aggregate of all losses, claims, costs, damages, expenses or liabilities of the nature provided for in section 8 such that the Agents shall be responsible for that portion represented by the percentage that the Agents' commission bears to the gross proceeds from the Offering and the Company shall be responsible for the balance. Notwithstanding the foregoing, a person guilty of fraudulent misrepresentation shall not be entitled to contribution from any other party. Any party entitled to contribution will, promptly after receiving notice of commencement of any claim, action, suit or proceeding against such party in respect of which a claim for contribution may be made against another party or parties under this section, notify such party or parties from whom contribution may be sought. In no case shall such party from whom contribution may be sought be liable under this contribution agreement unless such notice shall have been provided, but the omission to so notify such party shall not relieve the party from whom contribution may be sought from any other obligation it may have otherwise than under this section. The right to contribution provided in this section shall be in addition to, and not in derogation of, any other right to contribution which the Agents may have by statute or otherwise by law.

10. Termination Rights

10.1 The Agents shall be entitled, at its option, to terminate all of its obligations under this Agreement, and the obligations of any person from whom the Agents has solicited an order to purchase Shares by notice to that effect delivered to the Company at any time.

10.2 If the Agents terminate this Agreement pursuant to this section 10, there shall be no further liability on the part of the Agents or the Purchasers. The right of the Agents to terminate its obligations under this Agreement is in addition to such other remedies as it may have or have in respect of any default, act or failure to act of the Company in respect of any of the matters contemplated by this Agreement.

11. Confidentiality

11.1 Each of the Agents agrees that it will keep all confidential information (the "Information") provided to it hereunder confidential and will not, without the prior consent of Scitex, disclose any of the Information to any party other than its officers, directors, employees, agents, and counsel (collectively, the "Representatives") who have a need to review such Information in connection with the performance by each of the Agents of its obligations hereunder provided, however, that the obligation hereunder to maintain confidentially does not apply to Information which:

- (a) is provided to a person who has executed a confidentiality agreement acceptable to Scitex;
- (b) is or becomes generally available to the public other than as a result of a disclosure by the Agents;
- (c) was available to the Agents on a non-confidential basis prior to its disclosure by Scitex;
- (d) becomes available to the Agents on a non-confidential basis from a party other than Scitex or Creo who is not otherwise known by the Agents to be bound by a confidentiality agreement and prohibited from transmitting the Information to the Agents; or
- (e) is required to be disclosed pursuant to any law, rule policy, or regulation or pursuant to any order or decree of any appropriate court or governmental agency (in which case, the Agents shall notify Scitex prior to the Agents' disclosure of the Information).

12. Breach of Agreement

12.1 Any breach of, or failure by the Company to comply with, any term or condition of this Agreement shall entitle the Agents, on behalf of the Purchasers of the Shares, to terminate their obligations to purchase the Shares by notice to that effect given to the Company. If either of the Agents terminates this Agreement pursuant to this section 12, there shall be no further liability on the part of the Agents or the Purchasers. Each of the Agents may waive, in whole or in part, or extend the time for compliance with, any terms and conditions without prejudice to its rights in respect of any other terms and conditions or any other or subsequent breach or non-compliance provided, however, that any waiver or extension must be in writing and signed by the Agents in order to be binding upon it.

13. No United States Offers and Sales

13.1 For purposes of this Agreement, the following terms shall have the meanings indicated:

- (a) “1933 Act “ means the Securities Act of 1933 (United States), as amended;
- (b) “Regulation S” means Regulation S promulgated by the SEC under the 1933 Act;
- (c) “SEC” means the United States Securities and Exchange Commission;
- (d) “United States” means the United States of America, its territories and possessions, any state of the United States, and the District of Columbia; and
- (e) “U.S. person” has the meaning ascribed thereto in Rule 902 of Regulation S.

13.2 The Company represents and warrants to and covenants and agrees with the Agents that neither the Company nor any of its affiliates, nor any person acting on their behalf, has made or will make:

- (a) any offer to sell, or any solicitation of an offer to buy, any Shares to a U.S. person or a person in the United States;
- (b) except as permitted under the provisions of Rule 144 under the 1933 Act, any sale of Shares, unless, at the time the buy order was or will have been originated, the Purchaser was outside the United States or the Company, its affiliates, and any person acting on their behalf reasonably believed that the Purchaser was outside the United States; and
- (c) any directed selling efforts as that terms is defined in Rule 902 of Regulation S.

13.3 Each of the Agents represents and warrants to and covenants and agrees with the Company as follows:

- (a) the Agent acknowledges that none of the Shares has been or will be registered under the 1933 Act;
- (b) neither of the Agents nor any of their affiliates nor any person acting on their behalf or on behalf of their affiliates has knowingly made or will knowingly make:
 - (i) any offer to sell or any solicitation of an offer to buy, any Shares to any U.S. person or person in the United States;

- (ii) except as permitted under the provisions of Rule 144 under the 1933 Act, any sale of Shares to any Purchaser unless, at the time the buy order was or will have been originated, the Purchaser was outside the United States, or an Agent, affiliate, or person acting on behalf of either reasonably believed that such Purchaser was outside the United States; and
- (iii) any directed selling efforts as that term is defined in Rule 902 of Regulation S.

14. Notices

14.1 Any notice under this Agreement shall be given in writing and either delivered or telecopied to the party to receive such notice at the address or telecopy numbers indicated below:

to the Company:

Scitex Corporation Ltd.
3 Azrieli Center, Triangle Building
Tel Aviv, 67023, Israel

Attention: Yahel Shachar
Telefax: (972) 3-6075756

With a copy to the Company's counsel:

Proskauer Rose LLP
1585 Broadway
New York, New York 10036-8299

Attention: Stanley Komaroff, Esq.
Telefax: (212) 969-2900

to the Agents:

Dundee Securities Corporation
Suite 3424, Four Bentall Centre
1055 Dunsmuir Street
Vancouver, British Columbia
V7X 1K8

Attention: Paul Hughes
Telefax: (604) 647-0358

Raymond James Ltd.
Suite 5300 Scotia Plaza
40 King Street West
Toronto, Ontario
Canada M5H 3Y2

Attention: John Cushman
Telefax: (416) 416-777-7114

with a copy to the Agent's counsel:

Cassels Brock & Blackwell LLP
Scotia Plaza, Suite 2100
40 King Street West
Toronto, Ontario
Canada M5H 3C2

Attention: Lawrence D. Wilder, Esq.
Telefax: (416) 350-6904

White & Case LLP
1155 Avenue of the Americas
New York, NY 10036

Attention: Mark L. Mandel, Esq.
Telefax: (212) 354-8113

or such other address or telecopy number as such party may hereafter designate by notice in writing to the other party. If a notice is delivered, it shall be effective from the date of delivery; if such notice is telecopied (with receipt confirmed), it shall be effective on the business day following the date such notice is telecopied.

15. Survival

15.1 All representations, warranties, and agreements of the Company contained herein or contained in any document submitted pursuant to this Agreement or in connection with the purchase of the Shares shall survive the purchase of the Shares by the Purchasers and shall continue in full force and effect unaffected by any subsequent disposition of the Shares for a period of twenty-four (24) months from the sale of all of the Shares.

16. Time of the Essence

16.1 Time shall, in all respects, be of the essence hereof.

17. Headings

17.1 The headings contained herein are for convenience only and shall not affect the meaning or interpretation hereof.

18. Singular and Plural, etc.

18.1 Where the context so requires, words importing the singular number include plural and vice versa, and words importing gender shall include the masculine, feminine and neuter genders. The representations, warranties and covenants of the entities comprising the Company shall be joint as well as several.

19. Severability

19.1 The invalidity or unenforceability of any particular provision of this Agreement shall not affect or limit the validity or enforceability of the remaining provisions of this Agreement.

20. Governing Law

20.1 This Agreement shall be governed by and construed in accordance with the laws of the Province of British Columbia and the laws of Canada, applicable therein.

21. Successors and Assigns

21.1 The terms and provisions of this Agreement shall be binding upon and enure to the benefit of the Company, the Agents and their respective successors and permitted assigns, provided that, except as herein provided, this Agreement shall not be assignable by any party without the written consent of the others.

22. Further Assurances

22.1 Each of the parties hereto shall do or cause to be done all such acts and things and shall execute or cause to be executed all such documents, agreements and other instruments as may reasonably be necessary or desirable for the purpose of carrying out the provisions and intent of this Agreement.

23. Entire Agreement

23.1 The provisions herein contained constitute the entire agreement between the parties hereto and supersede all previous communications, representations, understandings and agreements between the parties with respect to the subject matter hereof, whether verbal or written, except for the Engagement Agreement.

24. Counterparts

24.1 This Agreement may be executed in any number of counterparts all of which when taken together shall be deemed to be one and the same document and notwithstanding their actual date of execution shall be deemed to be dated as of the date first above written.

25. Effective Date

25.1 This Agreement is intended to and shall take effect as of the date first set forth above, notwithstanding its actual date of execution or delivery.

If the above is in accordance with your understanding, please sign and return to the Agents a copy of this letter, whereupon this letter and your acceptance shall constitute a binding agreement between the Company and the Agents.

RAYMOND JAMES LTD.

Per:

Authorized Signatory

DUNDEE SECURITIES CORPORATION

Per:

Authorized Signatory

The above offer is hereby accepted and agreed to as of the date first above written.

SCITEX CORPORATION LTD.

Per:

Authorized Signatory

Filename: exhibit_4a4.htm
Type: EX-99
Comment/Description:
(this header is not part of the document)

Exhibit 4(a)(4)

RAYMOND JAMES LTD.

Suite 5300 Scotia Plaza
40 King Street West
Toronto, Ontario
M5H 3Y2
Attn: John Cushman

DUNDEE SECURITIES CORPORATION

Suite 3424, Four Bentall Centre
1055 Dunsmuir Street
Vancouver, British Columbia
V7X 1K8
Attention: Paul Hughes

August 11, 2003

Scitex Corporation Ltd.
3 Azrieli Center, Triangle Building
Tel Aviv
67023, Israel

Attention: Mr. Yahel Shachar

Dear Sirs:

Raymond James Ltd. and Dundee Securities Corporation (the "Agents") understand that Scitex Corporation Ltd. ("Scitex" or the "Company") proposes to sell (the "Offering") 3,250,000 common shares of Creo Inc. ("Creo") held by Scitex (the "Shares") at a price of \$9.50 per share.

Subject to the terms and conditions set forth below, the Company appoints the Agents to act as the Company's sole and exclusive agents to solicit offers to purchase the Shares.

All references to dollars or \$ herein are to lawful currency of the United States of America, unless otherwise indicated.

In this agreement "business day" means any day except Saturday, Sunday or a statutory holiday in Vancouver, British Columbia.

1. Offering

1.1 The Agents will act as agents of the Company and use their commercially reasonable efforts to arrange for purchasers ("Purchasers") for the Shares in the jurisdictions as may be agreed upon by the Agents and the Company.

1.2 The sale of the Shares to Purchasers will be effected in a manner so as to be exempt from the prospectus requirements of applicable Canadian securities laws and the registration requirements of applicable United States securities laws.

1.3 In consideration of the services performed by the Agents under this Agreement, which services shall include:

- (a) acting as the Company's agents to solicit offers to purchase the Shares; and
- (b) advising the Company with respect to the sale of the Shares,

the Company agrees to pay to the Agents at the time of settlement of any trades of the Shares a fee equal to 1.75% of the gross proceeds therefrom, which the Agents will divide equally between them, as determined by the agreement among the parties hereto dated May 27, 2003 (the "Engagement Agreement").

1.4 The Company agrees that the Agents will be permitted to appoint other registered dealers (or other dealers duly qualified in their respective jurisdictions) as its agents to assist in the Offering and that the Agents may determine the remuneration payable by the Agents to such other dealers appointed by it.

2. Representations and Warranties of the Company

2.1 The Company represents and warrants to the Agents and acknowledges that the Agents are relying upon such representations and warranties, as follows:

- (a) the Company has been duly incorporated, amalgamated or continued and organized and is validly existing under the laws of the jurisdiction of its incorporation, amalgamation or continuance and is duly qualified to carry on its business and has filed all annual reports required under the laws of the jurisdiction of its incorporation, amalgamation or continuance;
- (b) the Company has full corporate power and authority to undertake the Offering and enter into this Agreement and to perform its obligations set out herein and this Agreement has been, duly authorized, executed and delivered by the Company and constitutes a legal, valid and binding obligation of the Company enforceable in accordance with its terms;
- (c) the Company is not in default or breach of, and assuming the Company receives the consent of Creo to the Offering under the provisions of Section 3.2 of the Standstill Agreement dated April 4, 2000 between Scitex Corporation Ltd. and Creo (the "Standstill Agreement"), the execution and delivery of this Agreement and the performance of the transactions contemplated hereby will not result in a breach of, and do not create a state of facts which, after notice or lapse of time or both, will result in a breach of, and do not and will not conflict with, any of the terms, conditions or provisions of the constating documents, resolutions or by-laws of the Company or any indenture, contract, agreement (written or oral), instrument, lease or other document to which the Company is a party or by which the Company is contractually bound or any laws, orders or regulations applicable to the Company;
- (d) the Company is the sole legal and beneficial owner of the Shares, all of which are validly issued as fully paid and non-assessable shares in the capital of Creo and are owned by the Company free and clear of all mortgages, liens, charges, pledges, security interests, encumbrances, adverse claims or demands whatsoever other than those contained in the Standstill Agreement;

- (e) no person, firm or corporation has any agreement or option, right or privilege (whether pre-emptive, contractual or otherwise) capable of becoming an agreement for the purchase or acquisition of any right or interest in any of the Shares;
- (a) no authorization, approval or consent of any court, governmental authority, agency or other party in any jurisdiction is required to be obtained by the Company in connection with the sale and delivery of the Shares hereunder (other than the consent of Creo);
- (f) other than the Agents and their agents, there is no person, firm or corporation acting or purporting to act at the request of the Company, who is entitled to any brokerage or finder's fee in connection with the transactions contemplated herein and in the event that any person, firm or corporation acting or purporting to act for the Company establishes a claim for any fee from the Agents, the Company covenants to indemnify and hold harmless the Agents with respect thereto and with respect to all costs reasonably incurred in defense thereof; and
- (g) the Company has taken or will take all steps as may be necessary to comply with the requirements of the applicable securities laws in connection with the sale of the Shares and the Company is entitled to avail itself of the applicable prospectus and registration exemptions available under the applicable securities laws in respect of the trades in the Shares to Purchasers resident in those jurisdictions.

2.2 The representations and warranties of the Company contained in this Agreement shall be true at the time of sale of any of the Shares as though they were made at the time of sale of any of the Shares.

3. Representations and Warranties of the Agents

3.1 Each of the Agents represents and warrants to the Company and acknowledges that the Company will be relying upon such representations and warranties in entering into this Agreement, that:

- (a) it holds all licenses and permits that are required for carrying on its business in the manner in which such business has been carried on;
- (b) it has good and sufficient right and authority to enter into this Agreement and complete its transactions contemplated under this Agreement on the terms and conditions set forth herein; and
- (c) it is appropriately registered under the applicable securities laws of Provinces of Canada so as to permit it to lawfully fulfil its obligations hereunder.

3.2 The representations and warranties of the Agents contained in this Agreement shall be true at the time of sale of any of the Shares as though they were made at the time of sale of any of the Shares.

4. Covenants of the Company

4.1 The Company hereby covenants to and with the Agents that it will:

- (a) allow each of the Agents and its counsel to conduct all due diligence in connection with the Offering which the Agents may reasonably require;
- (b) use its commercially reasonable efforts to obtain any necessary regulatory consents to the Offering on such terms as are mutually acceptable to the Agents and the Company, acting reasonably;
- (c) duly, punctually and faithfully fulfill all legal requirements to permit the Offering, including, without limitation, compliance with all applicable securities legislation to enable the Shares to be sold in accordance with this Agreement;
- (d) ensure that the offer, sale and distribution of the Shares will fully comply with the requirements of applicable securities legislation; and
- (e) duly and punctually perform all the obligations to be performed by it under this Agreement.

5. Covenants of the Agents

5.1 Each of the Agents covenants with the Company that:

- (a) it will comply with all applicable securities laws in connection with the Offering; and
- (b) it has not and will not conduct any general solicitation or general advertising in connection with the offer and sale of the Shares, including advertisements, articles, notices or other communications published in any newspaper, magazine or similar media or broadcast over radio or television other than a tombstone advertisement announcing the completion of the Offering.

6. Conditions of Closing

6.1 The purchase and sale of the Shares and the closing hereunder shall occur on August 18, 2003 subject to the fulfillment of the following conditions:

- (a) the Company having obtained all requisite regulatory approvals required to be obtained by the Company in respect of the Offering on terms mutually acceptable to the Company and the Agents;
- (b) the subsequent resale of the Shares by the Purchasers outside of the United States being free from resale restrictions;

- (c) the certificates representing the Shares to be delivered to the Purchasers being unlegended;
- (d) the Company having complied fully with all relevant statutory and regulatory requirements required to be complied with prior to the time of sale of the Shares in connection with the Offering;
- (e) the Company having taken all necessary corporate action to authorize and approve this Agreement and all other matters relating thereto;
- (f) the Agents having received prior to the sale of the Shares a favourable legal opinion of the Corporate Secretary, addressed to the Agents, and acceptable in all reasonable respects to counsel to the Agents to the following effect:
 - (i) the Company has all requisite corporate capacity, power and authority to execute and deliver this Agreement and perform all transactions contemplated hereby and thereby;
- (g) the Agents having received prior to the sale of the Shares a favourable legal opinion of Blake, Cassels & Graydon LLP, addressed to the Agents, and acceptable in all reasonable respects to counsel to the Agents to the following effect:
 - (i) the offer and sale of the Shares has been effected in such a manner as to be exempt, either by statute or regulation or order, from the prospectus requirements of the applicable securities legislation, including the laws applicable in Canada, and the Company has taken all steps necessary under applicable Canadian securities legislation to permit the offer and sale of the Shares; and
 - (ii) there are no resale restrictions applicable to the Purchasers in respect of any subsequent resales of the Shares in Canada; and
 - (iii) this Agreement has been duly authorized, executed and delivered by the Company and constitutes a legal, valid and binding obligation of the Company enforceable in accordance with its terms;
- (h) the Agents having received prior to the sale of the Shares a favourable legal opinion of Proskauer Rose LLP, addressed to the Agents, and acceptable in all reasonable respects to counsel to the Agents to the following effect:
 - (i) the Shares are eligible for Category 1 of Rule 903(b)(1) of the Securities Act of 1933; and
 - (ii) the sale of the Shares will be exempt from registration under the United States Securities Act of 1933, as amended;
- (i) any additional matters requested by counsel to the Agents, acting reasonably.

7. Expenses

7.1 Upon the closing of the transactions contemplated hereby, all reasonable costs and expenses (including legal, travel and out-of-pocket expenses) incurred by the Agents in connection with carrying out the terms of its engagement shall be borne by the Company; provided, however, that in no event shall the Company be required to pay more than US\$15,000.00 with respect to such costs and expenses.

7.2 The Agents may, from time to time, render accounts to the Company for its expenses for payment on or before the dates set out in the accounts.

7.3 The Company authorizes the Agents to deduct its expenses incurred in connection with this Agreement, as prescribed in Section 7.1 above, from the proceeds of the Offering, including expenses for which an account has not yet been rendered to the Company.

8. Indemnities

8.1 The Company hereby covenants and agrees to protect, indemnify and hold harmless each of the Agents and its directors, officers, employees, solicitors and agents (each of the Agents and its directors, officers, employees, solicitors and agents being individually, an "Indemnified Party" and, collectively, the "Indemnified Parties") from and against all losses, claims, costs, damages or liabilities which they may suffer or incur caused by or arising directly or indirectly by reason of:

- (a) the Company not complying with any requirement of any securities legislation or regulatory requirements in connection with the Offering;
- (b) the Company's failure to comply with any of its obligations hereunder including any breach of or default under any representation, warranty, condition, covenant or agreement of the Company in this Agreement or any other document to be delivered pursuant thereto; or
- (c) any untrue statements in or omissions from any public disclosure documentation supplied by the Company and relied upon by the Agents in the performance of its duties.

8.2 If any action or claim shall be asserted against an Indemnified Party in respect of which indemnity may be sought from the Company pursuant to the provisions hereof, or if any potential claim contemplated by this section shall come to the knowledge of an Indemnified Party, the Indemnified Party shall promptly notify the Company in writing of the nature of such action or claim (provided that any failure to so notify shall not affect the Company's liability under this paragraph unless such delay has prejudiced the defense to such claim). The Company shall assume the defense thereof at its expense, provided, however that the defense shall be through legal counsel acceptable to the Indemnified Party, acting reasonably. In addition, the Indemnified Party shall also have the right to employ separate counsel in any such action and participate in the defense thereof, and the fees and expense of such counsel shall be borne by the Company if:

- (a) the Indemnified Party has been advised by counsel, acting reasonably, that representation of the Company and the Indemnified Party by the same counsel would be inappropriate due to actual or potential differing interests between them; or
- (b) the Company has failed within a reasonable time after receipt of such written notice to assume the defense of such action or claim.

8.3 It is understood and agreed that neither party shall effect any settlement of any such action or claim or make any admission of liability without the written consent of the other party, such consent not to be unreasonably withheld or delayed. The indemnity hereby provided for shall remain in full force and effect and shall not be limited to or affected by any other indemnity in respect of any matters specified in this section obtained by the Indemnified Party from any other person.

8.4 To the extent that any Indemnified Party is not a party to this Agreement, the Agents shall obtain and hold the right and benefit of this section in trust for and on behalf of such Indemnified Party.

The Company hereby consents to personal jurisdiction and service and venue in any court in which any claim which is subject to indemnification hereunder is brought against the Agents or any Indemnified Party and to the assignment of the benefit of this section to any Indemnified Party for the purpose of enforcement.

9. Contribution

9.1 In the event that, for any reason, the indemnity provided for in section 8 hereof is illegal or unenforceable, the Agents and the Company shall contribute to the aggregate of all losses, claims, costs, damages, expenses or liabilities of the nature provided for in section 8 such that the Agents shall be responsible for that portion represented by the percentage that the Agents' commission bears to the gross proceeds from the Offering and the Company shall be responsible for the balance. Notwithstanding the foregoing, a person guilty of fraudulent misrepresentation shall not be entitled to contribution from any other party. Any party entitled to contribution will, promptly after receiving notice of commencement of any claim, action, suit or proceeding against such party in respect of which a claim for contribution may be made against another party or parties under this section, notify such party or parties from whom contribution may be sought. In no case shall such party from whom contribution may be sought be liable under this contribution agreement unless such notice shall have been provided, but the omission to so notify such party shall not relieve the party from whom contribution may be sought from any other obligation it may have otherwise than under this section. The right to contribution provided in this section shall be in addition to, and not in derogation of, any other right to contribution which the Agents may have by statute or otherwise by law.

10. Termination Rights

10.1 Each of the Agents shall be entitled, at its option, to terminate all of its obligations under this Agreement, and the obligations of any person from whom either of the Agents has solicited an order to purchase Shares by notice to that effect delivered to the Company at any time.

10.2 If either of the Agents terminates this Agreement pursuant to this section 10, there shall be no further liability on the part of the Agents or the Purchasers. The right of each of the Agents to terminate its obligations under this Agreement is in addition to such other remedies as it may have or have in respect of any default, act or failure to act of the Company in respect of any of the matters contemplated by this Agreement.

11. Confidentiality

11.1 Each of the Agents agrees that it will keep all confidential information (the "Information") provided to it hereunder confidential and will not, without the prior consent of Scitex, disclose any of the Information to any party other than its officers, directors, employees, agents, and counsel (collectively, the "Representatives") who have a need to review such Information in connection with the performance by each of the Agents of its obligations hereunder provided, however, that the obligation hereunder to maintain confidentially does not apply to Information which:

- (a) is provided to a person who has executed a confidentiality agreement acceptable to Scitex;
- (b) is or becomes generally available to the public other than as a result of a disclosure by the Agents;
- (c) was available to the Agents on a non-confidential basis prior to its disclosure by Scitex;
- (d) becomes available to the Agents on a non-confidential basis from a party other than Scitex or Creo who is not otherwise known by the Agents to be bound by a confidentiality agreement and prohibited from transmitting the Information to the Agents; or
- (e) is required to be disclosed pursuant to any law, rule policy, or regulation or pursuant to any order or decree of any appropriate court or governmental agency (in which case, the Agents shall notify Scitex prior to the Agents' disclosure of the Information).

12. Breach of Agreement

12.1 Any breach of, or failure by the Company to comply with, any term or condition of this Agreement shall entitle the Agents, on behalf of the Purchasers of the Shares, to terminate their obligations to purchase the Shares by notice to that effect given to the Company. If either of the Agents terminates this Agreement pursuant to this section 12, there shall be no further liability on the part of the Agents or the Purchasers. Each of the Agents may waive, in whole or in part, or extend the time for compliance with, any terms and conditions without prejudice to its rights in respect of any other terms and conditions or any other or subsequent breach or non-compliance provided, however, that any waiver or extension must be in writing and signed by the Agents in order to be binding upon it.

13. No United States Offers and Sales

13.1 For purposes of this Agreement, the following terms shall have the meanings indicated:

- (a) “1933 Act” means the Securities Act of 1933 (United States), as amended;
- (b) “Regulation S” means Regulation S promulgated by the SEC under the 1933 Act;
- (c) “SEC” means the United States Securities and Exchange Commission;
- (d) “United States” means the United States of America, its territories and possessions, any state of the United States, and the District of Columbia; and
- (e) “U.S. person” has the meaning ascribed thereto in Rule 902 of Regulation S.

13.2 The Company represents and warrants to and covenants and agrees with the Agents that neither the Company nor any of its affiliates, nor any person acting on their behalf, has made or will make:

- (a) any offer to sell, or any solicitation of an offer to buy, any Shares to a U.S. person or a person in the United States;
- (b) except as permitted under the provisions of Rule 144 under the 1933 Act, any sale of Shares, unless, at the time the buy order was or will have been originated, the Purchaser was outside the United States or the Company, its affiliates, and any person acting on their behalf reasonably believed that the Purchaser was outside the United States; and
- (c) any directed selling efforts as that term is defined in Rule 902 of Regulation S.

13.3 Each of the Agents represents and warrants to and covenants and agrees with the Company as follows:

- (a) the Agent acknowledges that none of the Shares has been or will be registered under the 1933 Act;
- (b) neither of the Agents nor any of their affiliates nor any person acting on their behalf or on behalf of their affiliates has knowingly made or will knowingly make:
 - (i) any offer to sell or any solicitation of an offer to buy, any Shares to any U.S. person or person in the United States;
 - (ii) except as permitted under the provisions of Rule 144 under the 1933 Act, any sale of Shares to any Purchaser unless, at the time the buy order was or will have been originated, the Purchaser was outside the United States, or an Agent, affiliate, or person acting on behalf of either reasonably believed that such Purchaser was outside the United States; and

(iii) any directed selling efforts as that term is defined in Rule 902 of Regulation S.

14. Notices

14.1 Any notice under this Agreement shall be given in writing and either delivered or telecopied to the party to receive such notice at the address or telecopy numbers indicated below:

to the Company:

Scitex Corporation Ltd.
3 Azrieli Center, Triangle Building
Tel Aviv, 67023, Israel

Attention: Yahel Shachar
Telefax: (972) 3-6075756

With a copy to the Company's counsel:

Proskauer Rose LLP
1585 Broadway
New York, New York 10036-8299

Attention: Stanley Komaroff, Esq.
Telefax: (212) 969-2900

to the Agents:

Dundee Securities Corporation
Suite 3424, Four Bentall Centre
1055 Dunsmuir Street
Vancouver, British Columbia
V7X 1K8

Attention: Paul Hughes
Telefax: (604) 647-0358

Raymond James Ltd.
Suite 5300 Scotia Plaza
40 King Street West
Toronto, Ontario
Canada M5H 3Y2

Attention: John Cushman
Telefax: (416) 416-777-7114

with a copy to the Agent's counsel:

Cassels Brock & Blackwell LLP
Scotia Plaza, Suite 2100
40 King Street West
Toronto, Ontario
Canada M5H 3C2

Attention: Lawrence D. Wilder, Esq.
Telefax: (416) 350-6904

White & Case LLP
1155 Avenue of the Americas
New York, NY 10036

Attention: Mark L. Mandel, Esq.
Telefax: (212) 354-8113

or such other address or telecopy number as such party may hereafter designate by notice in writing to the other party. If a notice is delivered, it shall be effective from the date of delivery; if such notice is telecopied (with receipt confirmed), it shall be effective on the business day following the date such notice is telecopied.

15. Survival

15.1 All representations, warranties, and agreements of the Company contained herein or contained in any document submitted pursuant to this Agreement or in connection with the purchase of the Shares shall survive the purchase of the Shares by the Purchasers and shall continue in full force and effect unaffected by any subsequent disposition of the Shares for a period of twenty-four (24) months from the sale of all of the Shares.

16. Time of the Essence

16.1 Time shall, in all respects, be of the essence hereof.

17. Headings

17.1 The headings contained herein are for convenience only and shall not affect the meaning or interpretation hereof.

18. Singular and Plural, etc.

18.1 Where the context so requires, words importing the singular number include plural and vice versa, and words importing gender shall include the masculine, feminine and neuter genders. The representations, warranties and covenants of the entities comprising the Company shall be joint as well as several.

19. Severability

19.1 The invalidity or unenforceability of any particular provision of this Agreement shall not affect or limit the validity or enforceability of the remaining provisions of this Agreement.

20. Governing Law

20.1 This Agreement shall be governed by and construed in accordance with the laws of the Province of British Columbia and the laws of Canada, applicable therein.

21. Successors and Assigns

21.1 The terms and provisions of this Agreement shall be binding upon and enure to the benefit of the Company, the Agents and their respective successors and permitted assigns, provided that, except as herein provided, this Agreement shall not be assignable by any party without the written consent of the others.

22. Further Assurances

22.1 Each of the parties hereto shall do or cause to be done all such acts and things and shall execute or cause to be executed all such documents, agreements and other instruments as may reasonably be necessary or desirable for the purpose of carrying out the provisions and intent of this Agreement.

23. Entire Agreement

23.1 The provisions herein contained constitute the entire agreement between the parties hereto and supersede all previous communications, representations, understandings and agreements between the parties with respect to the subject matter hereof, whether verbal or written, except for the Engagement Agreement.

24. Counterparts

24.1 This Agreement may be executed in any number of counterparts all of which when taken together shall be deemed to be one and the same document and notwithstanding their actual date of execution shall be deemed to be dated as of the date first above written.

25. Effective Date

25.1 This Agreement is intended to and shall take effect as of the date first set forth above, notwithstanding its actual date of execution or delivery.

If the above is in accordance with your understanding, please sign and return to the Agents a copy of this letter, whereupon this letter and your acceptance shall constitute a binding agreement between the Company and the Agents.

RAYMOND JAMES LTD.

Per:

Authorized Signatory

DUNDEE SECURITIES CORPORATION

Per:

Authorized Signatory

The above offer is hereby accepted and agreed to as of the date first above written.

SCITEX CORPORATION LTD.

Per:

Authorized Signatory

Filename: exhibit_4d1.htm

Type: EX-99

Comment/Description:

(this header is not part of the document)

Exhibit 4(d)(1)

This SERVICES AGREEMENT (the “**Agreement**”) dated as of November 1, 2001 is made between CLAL INDUSTRIES AND INVESTMENTS LTD., a public company incorporated and existing under the laws of the State of Israel (“**Clal**”) and SCITEX CORPORATION LTD., a public company incorporated and existing under the laws of the State of Israel (“**Scitex**”).

Whereas With effect from 1 November 2001 (the “**Effective Date**”), Clal has agreed to make certain services available to Scitex, primarily in connection with the transfer of Scitex’s corporate offices to facilities leased to Clal at the Azrieli Center, Triangle Building, Tel Aviv, Israel and the services of certain Clal employees (the “**Azrieli Center**”), and Scitex has agreed to make the services of certain Scitex employees available to Clal, all under the terms and conditions set under this Agreement.

Whereas With effect from 1 September 2001, Mr. Agassi (“**Agassi**”), an employee of Clal, was appointed interim Chief Executive Officer of Scitex.

NOW THEREFORE THE PARTIES HEREBY AGREE AS FOLLOWS:

1. THE TERM

- 1.1 Subject to obtaining the approvals specified in Section 6.7 hereunder, this Agreement shall be effective as of the Effective Date, except for the CEO Services (as defined hereunder), which shall be effective from 1 September 2001.
- 1.2 If any of Clal and Scitex (together: the “**Parties**” or individually a “**Party**”) intends to cease to provide or receive Clal’s Services or Scitex’s Services (as hereinafter defined) (together: the “**Services**”), or any of them, it must give prior written notification of at least three (3) months to the other Party, unless otherwise agreed. In such circumstances, each Party shall provide reasonable cooperation and assistance to the other Party in order to enable it to implement such service by itself, but in no event shall such assistance be for more than thirty (30) days from the date of termination. In the event of termination each Party shall remain liable for all amounts due for the service incurred prior to the actual date of termination of such service and for any reasonable expenses related thereto.

2. SERVICES

- 2.1 Clal shall make available to Scitex the following services (the “**Clal’s Services**”). Clal’s Services shall be provided by Clal itself or by Clal Central Industrial Financing (1962) Ltd., a wholly owned subsidiary of Clal, or by third party supplier:
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- 2.1.1 Office space at the Azrieli Center, (the “**Scitex Rental Property**”). The actual amount of space and the physical location of the Scitex Rental Property as of the commencement of this Agreement shall be as specified in Appendix A to this Agreement. The Scitex Rental Property shall be adjusted from time to time in correlation to the amount of space occupied by employees of Scitex located at Azrieli Center (including those seconded by Clal to Scitex according to Section 2.1.4 hereunder) and shall be suitable for the purposes of Scitex’s corporate offices and ancillary operations. Scitex shall use the Scitex Rental Property only in accordance with the permitted uses thereof and, subject to the provisions hereof, shall obey vis-à-vis Clal all restrictions and obligations, to the extent applicable to the occupant thereof, all as are described in the lease to Clal.
- 2.1.2 Ancillary services to the Scitex Rental Property, such as cleaning and security services, MIS services, etc.
- 2.1.3 Seconding Agassi, or another senior officer of Clal, who will serve as Chief Executive Officer of Scitex (whether or not on an interim basis) (“**CEO Services**”), and who will dedicate approximately 60% of his work hours in order to provide the CEO Services.
- 2.1.4 Seconding other employees, on full or part time basis, (a) on a need basis, and (b) can reasonably be provided by Clal to Scitex without impacting on Clal’s operations, all as agreed between the Parties from time to time.
- 2.1.5 Such other office services, such as the services specified in section 3.3.2, which (a) are available or being provided to, or by Clal, (b) are requested by Scitex as consistent to its operations, and (c) can reasonably be provided by Clal to Scitex without impacting on Clal’s operations.
- 2.2 Scitex shall second employees to Clal, on full or part time basis, (a) on a need basis, and (b) can reasonably be provided by Scitex to Clal without impacting on Scitex’s operations, all as agreed between the Parties from time to time (“**Scitex’s Services**”).
- 2.3 The quality of the services offered shall be consistent with the standard services made available to or by the Parties during the term of this Agreement.
- 2.4 Where the services set forth will be provided to Clal by a third party supplier, the availability of such services from Clal to Scitex shall be contingent upon the availability of such services to Clal from the third party supplier; provided that Clal shall notify Scitex in writing of the unavailability of such services as soon as Clal receives notice of such.

3. CONSIDERATION

3.1 Definitions

3.1.1 **Employees Proportion Basis** - a fraction, (1) the numerator of which shall be the number of employees of Scitex located at Azrieli Center (including those seconded to Scitex by Clal and excluding those seconded to Clal by Scitex), and (2) the denominator of which shall be the aggregate number of employees of Clal and Scitex located at Azrieli Center. If an employee is seconded on a part time basis, he shall be counted proportionally.

3.1.2 **Gross Salary** – the cost of the employee to the employer (including social rights, bonuses and all other ancillary rights, except option plan), calculated on a yearly basis.

3.1.3 **Rent Proportion Basis** – a fraction, (1) the numerator of which shall be the square meterage occupied by Scitex at Azrieli Center (including by the employees seconded to Scitex by Clal and excluding by the employees seconded to Clal by Scitex), and (2) the denominator of which shall be either the square meterage leased to Clal at Azrieli Center (including the square meterage occupied by Scitex) or the premise(s) covered by the expense, as applicable. If an employee is seconded on a part time basis, the square meterage occupied by him shall be counted proportionally.

3.2 Except as specified under this Agreement and its Appendices, the services rendered shall be provided by the Parties at the actual cost for the service, and shall not include any overhead expense, or general and administrative cost. If such rule cannot be implemented, the services shall be charged according to the following principals (provided, however, that no services shall be double-charged):

3.3.1 Scitex shall bear the following costs according to the Rent Proportion Basis: the rent payments for Azrieli Center, cleaning of the property, security, real estate taxes (known as “Arnona”), electricity and all other expenses associated with facility maintenance, but excluding any expenses relating to replacement or redecoration of the facilities or the fixtures and fittings therein.

3.3.2 Scitex shall bear the following costs according to the Employees Proportion Basis: Catering services for meetings, photocopying, general office services such as use of kitchens, support staff, etc., logistics services including but not limited to use of common receptionist, and all other services which are not specifically mentioned under any other section.

3.3.3 For seconding employees, on a full or part-time basis, each Party shall pay the other Party its portion of the employee's Gross Salary. In the event of bonus payments to employees seconded on a full time basis or a part time basis, which is more than 50%, the seconder Party shall consult the secondee Party before declaring such bonuses. Subject to section 3.4 hereunder, Scitex and Clal shall determine, from time to time, such portion for each employee.

3.3.4 Notwithstanding the generality of the forgoing, unless otherwise agreed between the Parties, Scitex shall pay the sum of NIS 825,000 per annum to Clal for the CEO Services together with Value Added Tax (“VAT”) (if applicable) and such bonuses, if any, as shall from time to time be approved by Scitex. The aforesaid sum shall be linked to the Israel Consumers Price Index (the “**Index**”), adjusted for each fiscal quarter according to the Index published in the first month of such quarter. The basic Index shall be the Index for September 2001, published in October 2001.

3.4 Appendices

3.4.1 A schedule containing the evaluation of the approximate consideration with regard to the Clal Services rendered, or intended to be rendered, as of, or shortly following, the commencement of this Agreement (other than the seconding of employees) is attached to this Agreement as Appendix A. Any material change to the cost of the Clal Services shall be subject to the approval of the audit committees of both Clal and Scitex, provided that in no event shall the aggregate change thereto exceed \$20,000 per quarter plus VAT (if applicable) from the approximate consideration set forth in Appendix A.

3.4.2 Appendix B also contains the evaluation of the approximate consideration with regard to the employees seconded (except for Agassi), or intended to be seconded, as at, or shortly following, the commencement of this Agreement (the “**Employees Consideration**”). Any material change to the Employees Consideration shall be subject to the approval of the audit committees of both Clal and Scitex, provided that in no event shall the aggregate changes to the Employees Consideration exceed \$300,000 per annum plus VAT (if applicable) from the approximate Employees Consideration set forth in Appendix B.

3.5 Once in every six months, the audit committees of both Scitex and Clal shall be presented with a report regarding the services rendered under this agreement and the amounts paid as consideration for them.

3.6 Each Party shall invoice the other Party at the end of each month or at the end of each period during which the service is provided, or in the case of third party provider, after receiving his invoice or after the payment is due pursuant to a contract or understanding, as applicable. Payment shall be thirty (30) days from the date of the invoice.

3.7 Payment for any of the services shall be made in Israel currency or in U.S. currency based on the representative rate of exchange on the date of payment. If Clal tenders any payment to its service provider or landlord in a specific currency then such payment shall be made in that currency.

- 3.8 All payments shall be made only after receipt of a certificate of valid registration as a self-employee as required under the Value Added Tax Law, 1976, and of due management of accounting books as required by law and a certificate of tax exempt “Nikui Bamakor”.
- 3.9 VAT shall be added to all payments, as required by law.

4. INSURANCE & INDEMNITY

- 4.1 The Parties agree that, prior to December 31, 2001, they will sign an Appendix to this Agreement setting out the provisions relating to all insurance obligations of the Parties in respect of this Agreement and ancillary and consequential indemnities.

5. CONFIDENTIAL INFORMATION

- 5.1 The Parties acknowledge that confidential information may be exchanged between any of the parties during the course of performance of this Agreement. For the purposes hereof, “Confidential Information” shall mean all information, specifications, formulations, data, technology, know-how, designs, inventions, discoveries, processes, models and/or trade and business secrets, including without limitation, details about financial, contractual and marketing information, and similar information which have been hereto or may hereafter be transmitted or otherwise disclosed by any of the parties hereto, and which are confidential by its nature confidential by its nature or which are designated as “Confidential”.
- 5.2 The Parties shall maintain in the strictest confidence all Confidential Information received by or from the other Party hereto. No Party shall divulge any Confidential Information to any person, firm or corporation without the prior express written consent of the disclosing Party, except to those of its employees, agents, or consultants who are bound by a written non-disclosure agreement of at least equal scope to this Agreement, and only to the extent required by them for the proper performance of their duties under this Agreement.
- 5.3 This Confidentiality Agreement shall not apply to specific information which: (i) is in, or enters, the public domain otherwise than by reason of a breach hereof; (ii) was known prior to the disclosure thereof; (iii) is legally transmitted or disclosed by a third party unless the receiving Party was aware of a breach of an obligation of confidentiality to the disclosing Party or was willfully blind, or (iv) is independently developed by the Party without the use of Confidential Information.
- 5.4 The disclosure of Confidential Information or its use hereunder shall not be construed in any way to grant any party any right or license with respect to Confidential Information other than the right to use Confidential Information strictly in accordance with the terms of this Agreement.

6. GENERAL MATTERS

- 6.1 This Agreement shall be exclusively governed by and construed in accordance with the laws of the State of Israel.
- 6.2 Neither Party shall be liable to the other for any failure or delay caused by events beyond such Party's reasonable control, including, without limitation, the other Party's failure to furnish necessary information, sabotage, failures or delays in transportation or communication, failures or substitutions of equipment, labor disputes, accidents, acts of God, war, terrorism, shortages of labor, fuel, raw materials, or equipment.
- 6.3 Any dispute hereunder shall be resolved amicably in the first instance by a meeting between the President or Chief Financial Officer or other senior officer of Clal (provided he or she does not serve as the Chairman or as an officer of Scitex) and President or Chief Financial Officer or other senior officer of Scitex (provided he or she is not an officer or employee of Clal). Should such a meeting fail to resolve the dispute in fifteen (15) days, the parties agree to proceed to arbitration in Tel Aviv, Israel. The Parties shall appoint an arbitrator with mutual agreement, or absent such agreement in ten (10) days, by the chairman of the Israel Bar Association. Such arbitrator shall have extensive legal experience in commercial matters. Both parties agree that the arbitrator shall be instructed to reach and submit a final adjudication of any dispute put before him within sixty (60) days of his appointment.
- 6.4 Each of the parties hereto shall execute all documents, file all permits and take all other actions as may be required to give effect to the transactions described in this Agreement.
- 6.5 Except as is expressly permitted hereby, no Party shall assign, transfer, or subcontract this Agreement or any of its primary obligations hereunder without the prior written consent of the other Party affected, which consent shall not be unreasonably withheld. Without derogating from the generality of the forgoing, Clal may assign its rights and obligation hereunder, in whole or in part, to a company that is controlled by Clal, controlling Clal or under common control with Clal.
- 6.6 The parties shall bear equally the legal services rendered in connection with this Agreement, except for services with connection with obtaining the requisite approvals pursuant to section 5.7 of this Agreement and reports to the regulatory authorities.
- 6.7 This Agreement is subject to approval pursuant to the provisions of Chapter 5 of Part 6 the Companies Law 5759 - 1999.
- 6.8 This Agreement may be executed in counterparts, all of which will constitute one agreement.

IN WITNESS WHEREOF, THE PARTIES HERETO HAVE CAUSED THIS AGREEMENT TO BE EXECUTED BY THEIR DULY EMPOWERED REPRESENTATIVES AS OF THE DATE FIRST ABOVE MENTIONED.

CLAL INDUSTRIES AND INVESTMENTS LTD.

By: _____

Name and Title:

By: _____

Name and Title:

SCITEX CORPORATION LTD.

By: _____

Name and Title:

By: _____

Name and Title:



January 1, 2004

Clal Industries & Investments Ltd
3 Azrieli Center
Triangular Tower, 45th Floor
67023 Tel Aviv

Dear Sirs,

Re: **Services Agreement**

We refer your attention that the Services Agreement ("**Services Agreement**") between Clal Industries and Investments Ltd. ("**Clal**") and Scitex Corporation Ltd. ("**Scitex**") dated as of November 1, 2001.

As discussed and agreed with you, Scitex will be transferring its corporate offices from the facilities leased to Clal on the 45th floor of the 3 Azrieli Center, Triangular Tower ("**Azrieli Center**"), to facilities leased to Discount Investment Corporation Ltd. on the 43rd floor of the Azrieli Center. Accordingly, Scitex will no longer be requiring from Clal, and Clal will no longer be providing, the following services, as set forth in the Service Agreement, which services shall remain suspended, with effect from December 31, 2003 until the parties agree in writing to reinstate the same (if at all) pursuant to the provisions of the Services Agreement:

1. Office space at the Azrieli Center ("**Scitex Rental Property**");
2. Ancillary services to Scitex Rental Property; and
3. Seconding of employees to Scitex (it being noted that the seconding of Mr. Agassi to Scitex ceased on 30 June 2003 and that there has been no seconding of employees by Scitex to Clal since June 2002, and that accounting services are to be provided by Clal to Scitex until March 31, 2004);

In the event of any further costs and/or expenses with respect to Scitex, Scitex will cooperate with Clal regarding the payment of such further charges and/or expenses.

For the avoidance of doubt, we confirm that all applicable provisions of the Services Agreement (including indemnification undertakings) shall continue in full force and effect, in so far as they relate to the suspended services mentioned above until December 31, 2003, and with relation to services continuing to be granted, for as long as required according to the Services Agreement (as the case may be).

Yours truly,

For Scitex Corporation Ltd.

We confirm the above arrangements

Clal Industries and Investment Ltd.

Filename: exhibit_4d3.htm

Type: EX-99

Comment/Description:

(this header is not part of the document)

Exhibit 4(d)(3)

This SERVICES AGREEMENT (the “**Agreement**”) dated March 1, 2004 is made between DISCOUNT INVESTMENT CORPORATION LTD., a public company incorporated and existing under the laws of the State of Israel (“**DIC**”) and SCITEX CORPORATION LTD., a public company incorporated and existing under the laws of the State of Israel (“**Scitex**”).

Whereas With effect from January 15, 2004 (the “**Effective Date**”), DIC has agreed to make certain services available to Scitex under the terms and conditions set forth in this Agreement, primarily in connection with the transfer of Scitex’s corporate offices to the 43rd floor of the Triangular Tower, at 3 Azrieli Center, Tel Aviv, Israel which is leased in its entirety by DIC (the “**Azrieli Facility**”).

Whereas With effect from January 5, 2004, Mr. Raanan Cohen (“**Mr. Cohen**”), Vice President and an employee of DIC, was appointed interim President and Chief Executive Officer of Scitex.

NOW THEREFORE THE PARTIES HEREBY AGREE AS FOLLOWS:

1. THE TERM

- 1.1 Subject to obtaining the approvals specified in Section 5.7 hereunder, this Agreement shall be effective as of the Effective Date, except for the CEO Services (as defined hereunder), which shall be effective from January 5, 2004.
- 1.2 If either DIC or Scitex (together, the “**Parties**” and individually, a “**Party**”) intends to cease to provide or receive, respectively, the Services (as hereinafter defined), or any of them, it must give prior written notification of at least three (3) months to the other Party, unless otherwise agreed. In such circumstances, DIC shall provide reasonable cooperation and assistance to Scitex in order to enable it to implement such service by itself, but in no event shall such assistance be for more than thirty (30) days from the date of termination. In the event of termination, Scitex shall remain liable for all amounts due for the Services provided prior to the actual date of termination thereof and for any reasonable expenses related thereto.

2. SERVICES

- 2.1 DIC shall make available to Scitex the following services (the “**Services**”). The Services shall be provided by DIC itself or by a subsidiary of DIC, or by third party supplier:
 - 2.1.1 Office space at the Azrieli Facility, (the “**Scitex Rental Property**”). The actual amount of space of the Scitex Rental Property as of the commencement of this Agreement ~~constitutes 11.43% of the~~ aggregate square meterage of the Azrieli Facility. The Scitex Rental Property shall be adjusted from time to time in correlation to the actual amount of space occupied by employees of Scitex located at Azrieli Facility and shall be suitable for the purposes of Scitex’s corporate offices and ancillary operations, provided however that the Scitex Rental Property shall not be materially expanded or reduced except as hereinafter provided. Scitex shall use the Scitex Rental Property only in accordance with the permitted uses thereof and, subject to the provisions hereof, shall obey vis-à-vis DIC all restrictions and obligations, to the extent applicable to the occupant thereof, all as are provided for in the lease of the Azrieli Facility to DIC.

- 2.1.2 Ancillary services to the Scitex Rental Property, such as cleaning and security services, MIS services, etc.
- 2.1.3 Seconding Mr. Cohen, or another senior officer of DIC as may be agreed upon by the Parties, who will serve as President and/or Chief Executive Officer of Scitex (whether or not on an interim basis) (“**CEO Services**”), and who will dedicate approximately 40% of his work hours in order to provide the CEO Services.
- 2.1.4 Such other office services, such as the services specified in section 3.3.2, which (a) are available or being provided to DIC, and (b) are requested by Scitex as consistent to its operations, and (c) can reasonably be provided by DIC to Scitex without impacting on DIC’s operations.
- 2.2 The quality of the Services shall be consistent with the standard services made available to DIC during the term of this Agreement.
- 2.3 Where the services set forth herein will be provided to DIC by a third party supplier, the availability of such services from DIC to Scitex shall be contingent upon the availability of such services to DIC from the third party supplier; provided that DIC shall notify Scitex in writing of the unavailability of such services as soon as DIC receives notice of such.
- 3. CONSIDERATION**
- 3.1 Definitions
- 3.1.1 **Employees Proportion Basis** - a fraction, (1) the numerator of which shall be the number of employees of Scitex located at the Azrieli Facility, and (2) the denominator of which shall be the aggregate number of persons employed at the Azrieli Facility (including Scitex’s employees).
- 3.1.2 **Rent Proportion Basis** – (a) for any expense in respect of the entire Azrieli Facility: 11.43% which shall be adjusted from time to time pro rata to any expansion or decrease, as applicable, of the actual amount of space occupied by employees of Scitex at the Azrieli Facility; and (b) for any expense in respect of a part of the Azrieli Facility: a fraction, (1) the numerator of which shall be the square meterage occupied by employees of Scitex at the Azrieli Facility, and (2) the denominator of which shall be the square meterage such part of the Azrieli Facility.
- 3.2 Except as specified under this Agreement, the Services rendered shall be provided by DIC at the actual cost of DIC for the Service, and shall not include any overhead expense, or general and administrative cost. If such rule cannot be implemented, the Services shall be charged according to the following principals (provided, however, that no Services shall be double-charged):

- 3.3.1 Scitex shall bear the following costs according to the Rent Proportion Basis: the rent payments for the Azrieli Facility, cleaning of the property, security, real estate taxes (known as "Arnona"), water, electricity and all other expenses associated with facility maintenance, but excluding any expenses relating to replacement or redecoration of the facilities or the fixtures and fittings therein.
- 3.3.2 Scitex shall bear the following costs according to the Employees Proportion Basis: Catering services for meetings, photocopying, general office services such as use of kitchens, support staff, etc., logistics services including but not limited to use of common receptionist, and all other services which are not specifically mentioned under any other section.
- 3.4 Notwithstanding the generality of the forgoing:
- 3.4.1 Unless otherwise agreed between the Parties (as hereinafter provided), Scitex shall pay to DIC for the CEO Services the sum of NIS 493,000 per annum, and such bonuses, if any, as shall from time to time be approved by Scitex.
- 3.4.2 The consideration payable in respect of the CEO Services is based upon the actual cost of such services to DIC. It is understood that such cost of the DIC is subject to adjustments to changes in the Israel Consumers Price Index (the "**Index**"). Accordingly, the consideration for the CEO Services will be adjusted for each fiscal quarter pro rata to the increase or decrease of the Index published in the first month of such quarter over or below the Index for January 2004, published in February 2004.
- 3.4.3 In the event of a change in the cost to DIC of such services (other than as set forth in sub-section 3.4.2 above) or, having regard to the needs of Scitex, the parties agree upon a change in the percentage of work hours dedicated to Scitex by Mr. Cohen (or such other senior officer of DIC who shall serve as President and/or Chief Executive Officer of Scitex), the consideration payable for the CEO Services shall be increased or decreased accordingly, subject to the approval of the audit committee of Scitex, provided that in no event shall the sum payable in respect the CEO Services exceed NIS 750,000 per annum.
- 3.5 The approximate consideration for the Services rendered, or intended to be rendered, pursuant to this Agreement (other than the CEO Services) is \$17,000 per fiscal quarter. Any material change to the cost of such Services shall be subject to the approval of the audit committee of Scitex, provided that in no event shall the aggregate increase in the area of Scitex Rental Property exceed 75% from that occupied at the commencement of the Agreement.
- 3.6 Once in every six months, the audit committee of Scitex shall be presented with a report regarding the Services and the amounts paid as consideration for them.
- 3.7 DIC shall invoice Scitex at the end of each month, or in case of an ad-hoc service, at the end of the period during which it is provided, or in the case of third party provider, after receiving his invoice or after the payment is due pursuant to a contract or understanding, as applicable. Payment shall be thirty (30) days from the date of the invoice.

- 3.8 Payment for any of the Services shall be made in Israel currency or in U.S. currency based on the representative rate of exchange on the date of payment. If DIC tenders any payment to its service provider or landlord in a specific currency then such payment shall be made in that currency.
- 3.9 All payments shall be subject to withholding tax ("Nikui Bamakor") as required by law.
- 3.10 VAT shall be added to all payments, as required by law.

4. INDEMNITY

Scitex shall issue and deliver to Mr. Cohen (or such other senior officer of DIC who shall serve as President and/or Chief Executive Officer of Scitex) an indemnity letter as provided by Scitex to its executive officers in connection with personal liabilities that may arise from serving in such capacity.

5. GENERAL MATTERS

- 5.1 This Agreement shall be exclusively governed by and construed in accordance with the laws of the State of Israel.
- 5.2 Neither Party shall be liable to the other for any failure or delay caused by events beyond such Party's reasonable control, including, without limitation, sabotage, failures or delays in transportation or communication, failures or substitutions of equipment, labor disputes, accidents, acts of God, war, terrorism, shortages of labor, fuel, raw materials, or equipment.
- 5.3 Any dispute hereunder shall be resolved amicably in the first instance by a meeting between the President or Chief Financial Officer or other senior officer of DIC (provided he or she does not serve as the Chairman or as an officer of Scitex) and President or Chief Financial Officer or other senior officer of Scitex (provided he or she is not an officer or employee of DIC). Should such a meeting fail to resolve the dispute in fifteen (15) days, the parties agree to proceed to arbitration in Tel Aviv, Israel. The Parties shall appoint an arbitrator by mutual agreement, or absent such agreement in ten (10) days, by the chairman of the Israel Bar Association. Such arbitrator shall have extensive legal experience in commercial matters. Both parties agree that the arbitrator shall be instructed to reach and submit a final adjudication of any dispute put before him within sixty (60) days of his appointment.
- 5.4 Each of the parties hereto shall execute all documents, file all permits and take all other actions as may be required to give effect to the transactions described in this Agreement.

- 5.5 Except as is expressly permitted hereby, no Party shall assign, transfer, or subcontract this Agreement or any of its primary obligations hereunder without the prior written consent of the other Party affected, which consent shall not be unreasonably withheld. Without derogating from the generality of the forgoing, DIC may assign its rights and obligation hereunder, in whole or in part, to a company that is controlled by DIC, controlling DIC or under common control with DIC.
- 5.6 Each Party shall bear its own expenses for the legal services rendered to it in connection with this Agreement.
- 5.7 This Agreement is subject to approval pursuant to the provisions of Chapter 5 of Part 6 the Companies Law 5759 - 1999.
- 5.8 This Agreement may be executed in counterparts, all of which will constitute one agreement.

IN WITNESS WHEREOF, THE PARTIES HERETO HAVE CAUSED THIS AGREEMENT TO BE EXECUTED BY THEIR DULY EMPOWERED REPRESENTATIVES AS OF THE DATE FIRST ABOVE MENTIONED.

DISCOUNT INVESTMENT CORPORATION LTD.

By: _____

By: _____

Name and Title:

Name and Title:

SCITEX CORPORATION LTD.

By: _____

By: _____

Name and Title:

Name and Title:

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Comment/Description:
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EXHIBIT 8.

LIST OF SUBSIDIARIES

The following table lists the significant subsidiaries (direct or indirect) of Scitex Corporation Ltd. (“Scitex”) and their respective jurisdiction of incorporation, as of the date of Scitex’s Annual Report on Form 20-F filed herewith:

LEGAL AND BUSINESS NAME	JURISDICTION
Scitex Vision Ltd.	Israel
Scitex Vision International Ltd.	Israel
Jemtex InkJet Printing Ltd.	Israel

Filename: exhibit_12-1.htm

Type: EX-99

Comment/Description:

(this header is not part of the document)

EXHIBIT 12.1

CERTIFICATION

(Certification of CEO of the Registrant pursuant to Rule 13a-14(a)
as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002)

I, Raanan Cohen, certify that:

1. I have reviewed this annual report on Form 20-F of Scitex Corporation Ltd.;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the company as of, and for, the periods presented in this report;
4. The company's other certifying officer(s) and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) for the company and have:
 - (a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the company, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
 - (b) Evaluated the effectiveness of the company's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
 - (c) Disclosed in this report any change in the company's internal control over financial reporting that occurred during the period covered by the annual report that has materially affected, or is reasonably likely to materially affect, the company's internal control over financial reporting; and
5. The company's other certifying officer(s) and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the company's auditors and the audit committee of the company's board of directors (or persons performing the equivalent functions):
 - (a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the company's ability to record, process, summarize and report financial information; and
 - (b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the company's internal control over financial reporting.

Dated: June 30, 2004

BY: /S/ Raanan Cohen

Raanan Cohen
President and Chief Executive Officer

Filename: exhibit_12-2.htm
Type: EX-99
Comment/Description:
(this header is not part of the document)

EXHIBIT 12.2

CERTIFICATION

(Certification of CFO of the Registrant pursuant to Rule 13a-14(a)
as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002)

I, Yahel Shachar, certify that:

1. I have reviewed this annual report on Form 20-F of Scitex Corporation Ltd.;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the company as of, and for, the periods presented in this report;
4. The company's other certifying officer(s) and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) for the company and have:
 - (a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the company, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
 - (b) Evaluated the effectiveness of the company's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
 - (c) Disclosed in this report any change in the company's internal control over financial reporting that occurred during the period covered by the annual report that has materially affected, or is reasonably likely to materially affect, the company's internal control over financial reporting; and
5. The company's other certifying officer(s) and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the company's auditors and the audit committee of the company's board of directors (or persons performing the equivalent functions):
 - (a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the company's ability to record, process, summarize and report financial information; and
 - (b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the company's internal control over financial reporting.

Dated: June 30, 2004

BY: /S/ Yahel Shachar

Yahel Shachar
Chief Financial Officer

Filename: exhibit_13-1.htm

Type: EX-99

Comment/Description:

(this header is not part of the document)

EXHIBIT 13.1

CERTIFICATION

(Certification of CEO of the Registrant pursuant to Rule 13a-14(b)
as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002)

In connection with the Annual Report of Scitex Corporation Ltd. (the "Company") on Form 20-F for the period ending December 31, 2003, as filed with the Securities and Exchange Commission on the date hereof (the "Annual Report"), I, Raanan Cohen, President and Chief Executive Officer of the Company, certify, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that:

1. The Annual Report fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934; and
2. The information contained in the Annual Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

Date: June 30, 2004

BY: /S/ Raanan Cohen

Raanan Cohen
President and Chief Executive Officer

Filename: exhibit_13-2.htm

Type: EX-99

Comment/Description:

(this header is not part of the document)

EXHIBIT 13.2

CERTIFICATION

(Certification of CEO of the Registrant pursuant to Rule 13a-14(b)
as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002)

In connection with the Annual Report of Scitex Corporation Ltd. (the "Company") on Form 20-F for the period ending December 31, 2003, as filed with the Securities and Exchange Commission on the date hereof (the "Annual Report"), I, Yahel Shachar, Chief Financial Officer of the Company, certify, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that:

1. The Annual Report fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934; and
2. The information contained in the Annual Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

Date: June 30, 2004

BY: /S/ Yahel Shachar

Yahel Shachar
Chief Financial Officer

Filename: exhibit_14a1.htm
Type: EX-99
Comment/Description:
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Exhibit 14(a)(1)

Consent of Independent Accountants of Registrant

CONSENT OF INDEPENDENT PUBLIC ACCOUNTANTS

We hereby consent to the incorporation by reference in the Registration Statement on Form S-8 (Registration No. 33-34233, Registration No. 33-46861, Registration No. 33-87614, Registration No. 33-97622, Registration No. 33-97624 and Registration No. 33-39364) of Scitex Corporation Ltd. of our report dated March 1, 2004 relating to the financial statements and financial statement schedules, which appears in this Form 20-F.

Tel-Aviv, Israel
June 29, 2004

/s/ Kesselman & Kesselman

Kesselman & Kesselman
Certified Public Accountants (Isr.)

Filename: exhibit_14a2.htm

Type: EX-99

Comment/Description:

(this header is not part of the document)

Exhibit 14(a)(2)

[ZIV HAFT LETTERHEAD]

CONSENT OF INDEPENDENT AUDITOR

We hereby consent to the the inclusion in the Annual Report on Form 20-F of Scitex Corporation Ltd. ("Scitex") for the fiscal year ended December 31, 2003 (the "Annual Report"), and to the incorporation by reference in the Registration Statement of Scitex on Form S-8 (Registration No. 33-34233, Registration No. 33-46861, Registration No. 33-87614, Registration No. 33-97622, Registration No. 33-97624 and Registration No. 33-39364), of our Report dated February 19, 2004, with respect to the financial statements of Jemtex Ink Jet Printing Ltd. as of December 31, 2003.

Sincerely,

BY: /S/ Ziv Haft

Ziv Haft
Certified Public Accountants (Isr.)
BDO member firm

Tel-Aviv, Israel
June 28, 2004

Filename: exhibit_14a3.htm

Type: EX-99

Comment/Description:

(this header is not part of the document)

Exhibit 14(a)(3)

[Chaikin, Cohen, Rubin & Gilboa. Letterhead]

CONSENT OF INDEPENDENT PUBLIC ACCOUNTANTS

We hereby consent to the the inclusion in the Annual Report on Form 20-F of Scitex Corporation Ltd. ("Scitex") for the fiscal year ended December 31, 2003 (the "Annual Report"), and to the incorporation by reference in the Registration Statements of Scitex on Form S-8 (Registration No. 33-34233, Registration No. 33-46861, Registration No. 33-87614, Registration No. 33-97622, Registration No. 33-97624 and Registration No. 33-39364), of our Report dated February 16, 2004, with respect to the financial statements Objet Geometries Ltd. as of December 31, 2003.

Sincerely yours,

/s/ Chaikin, Cohen, Rubin & Gilboa

Chaikin, Cohen, Rubin & Gilboa
Certified Public Accountants (Isr.)

Tel-Aviv, Israel
June 28, 2004

Filename: exhibit_14a4.htm

Type: EX-99

Comment/Description:

(this header is not part of the document)

Exhibit 14(a)(4)

[KPMG LETTERHEAD]

CONSENT OF INDEPENDENT PUBLIC ACCOUNTANTS

The Board of Directors
Creo Inc.

We consent to the incorporation by reference in the Registration Statements on Form S-8 (No. 33-34233, No. 33-46861, No. 33-87614, No. 33-97622, No. 33-97624 and No. 33-39364) of Scitex Corporation Ltd. of the following reports incorporated by reference in the Annual Report of Scitex Corporation Ltd. on Form 20-F for the period ended December 31, 2003 :

- Auditors' Report to the Shareholders of Creo Inc. dated November 12, 2002, with respect to the Consolidated Financial Statements of Creo as at September 30, 2002 and 2001 and for the years ended September 30, 2002, 2001 and 2000 incorporated by reference in the Form 40-F of Creo filed with the Securities and Exchange Commission on February 20, 2003 ("Form 40-F"); and
- Comments by Auditor for U.S. Readers on Canada – U.S. Reporting Differences dated November 12, 2002 included in the Form 40-F.

/s/ KPMG LLP

KPMG LLP
Chartered Accountants

Vancouver, Canada
June 28, 2004
